



THE PRACTITIONER'S VIEW

Vol. 6, Issue 1 November 2004

"NEW" PRACTITIONERS COMMITTEE – CALL FOR VOLUNTEERS

As part of the restructuring process of ICANS a few years ago, a number of committees, including the Practitioner's Committee, were eliminated. Since then, various events held specifically for practitioners, such as the annual golf day and forum, have been organized with the support of the Institute but without a formal committee structure. Given the significant changes affecting public practice recently, the need for a vehicle to allow practitioners to voice their concerns has grown. The following notice to practitioners is issued by Peter Wilde CA, Raymond Wilde and Jim Horwich CA, Dockrill Horwich Rossiter, as a follow-up to their presentation at the recent Practitioner's Forum.

Jim Horwich and I have made a presentation to the AcSB on accounting standards as they should apply to small business clients (of whom there are over 950,000 across Canada). Our major point was that accounting standards should be relevant and understandable to our clients, and standards based on US GAAP for public companies are neither. ICANS has been kind enough to publish our presentation on its website, and we are excited that, based on the presentation by Paul Cherry, the chair of the AcSB, at the recent Practitioners Forum, AcSB is giving our ideas serious consideration.

Practitioners attending the Forum voted to revive the ICANS Practitioners Committee as a vehicle for members to voice their concerns as to standards overload, both to ICANS and to CICA. Our President and Executive Director both enthusiastically supported the idea, and now we are looking for members who are willing to serve on the Committee.

This is a great opportunity to collectively voice our opinions and ensure our message gets the attention it deserves. We encourage you to participate by volunteering your time and opinions.

Please contact us through ICANS by phone (425-3291) or by email at icans@icans.ns.ca.

CANADIAN GAAP – FUTURE DIRECTIONS

Paul Cherry FCA, Chair, CICA Accounting Standards Board (AcSB), presented a report at the Practitioners Forum in October on the input received as a result of the series of round-table sessions held across Canada by the AcSB on the future direction of standard setting in Canada. After sessions in seven cities involving more than 100 participants, including Halifax in September, and meetings with FEI members, regulators, professional associations, etc., and after reviewing more than 60 comment letters, the AcSB prepared a summary of comments received which can be viewed on the CICA website at www.acsbcanada.org.

Stakeholders provided a range of views that was quite similar everywhere. The general message is that "standards overload" is acute, especially for small and medium-sized enterprises and the accounting practitioners who serve them. There was a very clear message that we need a system in Canada that deals with the needs of private companies, that standards should be clearer and more concise, and the pace of change should be managed with more lead time for everyone. There appears to be declining support in Canada for US GAAP and a trend towards favoring International Financial Reporting Standards (IFRS).

The AcSB expects to finalize its strategic plan in mid-2005.

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.

The AcSB has also issued a response to the International Accounting Standards Board's (IASB) Discussion Paper "*Preliminary Views on Accounting Standards for Small and Medium-Sized Entities*". Their response, as well as responses from other accounting bodies in Canada and other countries, can be viewed at www.iasb.org/current/comment_letters.asp?

EIC122 - REVISITED

In the last issue of this newsletter, members were reminded that any debt, irrespective of its agreed repayment terms, must be disclosed in its entirety as a current liability if the holder of the debt has the ability to recall the debt at its **sole** discretion.

There are, however, two situations where it would not be necessary to reclassify demand loans with repayment terms:

- a) the creditor is willing to waive its right of recall – the waiver must be in writing and specify that there is no intention to recall prior to the end of the current fiscal period; or
- b) the loan agreement includes a subjective acceleration clause – the creditor does not have the unilateral right to demand repayment at any time unless "an event of default", including an adverse change in the financial condition of the borrower, has occurred under the terms of the loan agreement.

If callable debt does not meet either of these criteria and is not reclassified, the assurance report should be appropriately qualified.

Another option, reportedly used in Alberta, involves the use of double sub-totals. Current liabilities, including the current portion of long-term debt shown net of a new category – current portion of demand loans with repayment terms, would be listed and sub-totaled, followed by a separate category – demand loans with repayment terms – ending with a final total for current liabilities. Except in the circumstances noted above, demand loans with repayment terms should not be referred to or classified as long-term debt.

MUNICIPAL REPORTING – NEW COURSE OFFERED

Local Government Accounting and Financial Reporting is being offered as a one-day course on December 13 by Tim Beauchamp, senior manager with the CICA's Public Sector Accounting Board. This course will provide an update on PSAB activities, including a project on accounting for reporting of capital assets by local governments. It will also include a Q & A session on preparing PSAB compliant financial statements.

The course will be of particular benefit to municipal auditors and individuals working in the public sector. Further details and registration information can be found under Continuing Education on the ICANS website at www.icans.ns.ca.

COMMUNICATION WITH THOSE HAVING OVERSIGHT RESPONSIBILITY – GOES BEYOND INDEPENDENCE

Most members are aware of the requirement to communicate independence for assurance engagements under CICA Handbook Section 5751, *Communications With Those Having Oversight Responsibility*, which became effective for fiscal years ended on or after December 15, 2002.

However, the communication requirement goes beyond independence. In fact, auditors are required to communicate with their clients about their responsibilities, certain findings, and the audit approach to help audit committees (or equivalents) fulfill their obligations.

The Institute of Chartered Accountants of BC has provided a sample letter, attached as **Appendix A**, to assist members in **communication prior to completion of the audit** for public entities such as not-for-profit organizations. A sample communication for matters bearing on independence is included as an Appendix to CICA Handbook Section 5751.

The provisions of Section 5751 **also apply to review engagements** as required by 8100.30. As a result, practitioners, as a minimum, need to confirm their independence with their review engagement clients once a year prior to completion of each engagement. Almost all practitioners have missed this requirement since its introduction. A sample letter for confirmation of independence, modified for review engagements, is included in the Professional Engagement Manual.

PRACTICE ADVICE – ANNUAL ISSUE NOW AVAILABLE

The most recent issue of *Practice Advice*, a CICA newsletter published annually, came out in September and is a must-read for CAs who provide review and compilation services.

Practitioners will be particularly interested in a number of new projects the Auditing and Assurance Standards Board is considering, including the following:

- Compilation engagements – new engagement standard and report for compilation engagements to more clearly reflect the nature and extent of work performed by practitioners. The Board will also address the issue of attaching Notice to Readers to income tax returns.
- Management representations – new assurance standards on the use of management representations as audit evidence and the requirement to obtain written representation. This will also result in changes to guidance for review engagements under CICA Handbook Section 8200 Public Accountants Review of Financial Statements.
- Terms of Engagement – new assurance standards for documenting terms of engagement in writing. This will also result in changes to Section 8200.

The newsletter can be viewed in full at

http://www.cica.ca/multimedia/Download_Library/Standards/ASB/English/e_PA0904.pdf

PROFESSIONAL LIABILITY INSURANCE – HOW ARE WE DOING?

We've just received current claims statistics from AICA Services Inc., which provides professional liability insurance to the majority of our practitioners. Highlights of this information (see **Appendix B**) include the following observations:

- The largest number of claims is tax-related – consistent with past experience; tax is a large portion of the services provided by most practices, so no surprise!
- NS is **above** the national average - some large tax claims have come out of NS in the last 5 years.
- The second largest category of claims is the non-review area. While the number of claims is comparable to the national experience, the incurred expense (all costs) was 24% compared to 4.5% nationally – litigation was successful.

Malcolm D' Souza, VP Claims for AICA Services Inc., gave a typical example of a non-review claim. Initially, the Notice to Reader communication was intended primarily for financial statements prepared for tax purposes. Over time, distribution has increased significantly and now includes lenders, suppliers, etc. Although the communication includes a disclaimer ("I have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes"), practitioners, in discussions with bankers and others, may in essence be waiving the disclaimer by not reminding them that a higher level of assurance may be needed.

Also doing more work than required for a basic compilation, such as performing review type procedures, may lead the courts to conclude that the level of assurance should be set at the higher of the level of work performed or should have been performed. While banks are knowledgeable readers and have exposure, CA's can't hide behind this.

A review of Table 1, Appendix B, *Number of Claims by Size of Firm*, invites the following comments:

- Sole practitioners and firms with more than 10 employees have fewer claims due to greater control over the final product.
- Firms with 2-10 employees may experience rapid growth before firm-wide standards and systems are in place, resulting in inconsistent output.

D'Souza commented that Nova Scotia is not unlike the rest of the country; many smaller firms try to provide the same types of services as larger firms ("jack of all trades"), when outsourcing of work should be considered: taking on work beyond your expertise can result in claims. Another consideration along the same line is larger clients taking advantage of the size of the firm, for example, a public company choosing an auditor with little experience in this area. The take home message is to know your strengths and weaknesses – outsource areas of weakness or do not accept the engagement.

Recent trends

There has been a significant increase in claims involving misappropriation of funds by controller type individuals within organizations. The allegation against the CA firm is that it failed to detect the fraud during the course of its audit, review or compilation.

Tax continues to be a major area of claims. For the most part, the same old suspects continue to recur. This includes Section 84.1, poor tax planning revolving around purchase and sale agreements, incorrect calculation of capital dividend accounts resulting in an excess capital dividend being declared, disallowance of management fees/bonuses (180 day rule), and late filing.

Some emerging claims in the tax area involve estate returns (subsection 164(6)), capital tax, GST, tax shelters (art donations, medical products revolving around valuation issues).

See **Appendix B.1** for further commentary on these areas as well as mini-cases studies.

In general, the courts seem to be more eager to find negligence against accountants after ENRON and WORLDCOM which put added pressure on CAs in public practice.

PROVIDING INFORMATION ABOUT FORMER CLIENTS

The following article appeared in the September 2004 issue of News 'N Views, a publication of the Institute of Chartered Accountants of British Columbia and is reprinted with the permission of ICABC.

We are aware that members are occasionally asked by lawyers acting for former clients to provide information about those clients. It's important to keep in mind that members' duty of confidentiality extends to former clients and you must obtain those former clients' consent before discussing their affairs with anyone, even their lawyers. Furthermore, your working paper files (including the working papers you prepared and copies of information supplied by the client) are your property and you're not obliged to share them with your clients. As members are usually interested in maintaining client goodwill and giving assistance where possible, it is appropriate to ask the lawyer to provide written client consent and specifics of what is required. As well, it is entirely appropriate to discuss up front payment for any time spent on retrieving files and reviewing information where the time spent is not insignificant.

TRUSTEE FOR CLIENT'S FAMILY TRUST

The following article appeared in the September 2004 issue of News 'N Views, a publication of the Institute of Chartered Accountants of British Columbia and is reprinted with the permission of ICABC.

For members who have been approached by clients to act as a trustee for a family trust, we encourage you to consider the following:

- Acting as a trustee is tantamount to serving as an officer or director of an entity - thus Rule 204.4 (18) prohibits members from performing an assurance engagement for the trust. Members may provide compilation services so long as they disclose the nature and extent of their involvement with the trust as required by Rule 204.8.
- Being a trustee is a legal responsibility that most public practitioners are not familiar with. Therefore, we encourage members to seek legal advice before agreeing to the engagement.
- Taking on responsibility as a trustee is usually outside the normal scope of activities in the practice of public accounting and accordingly may not be covered by your professional liability insurance policy. Before signing anything, check with your insurance provider about coverage.

EMERGENCY PRACTICE TRANSITION - A POSITIVE PROFESSIONAL APPROACH

The following article appeared in the September 2004 issue of Practice Advice Bulletin, published by the Institute of Chartered Accountants of Alberta and written by Gordon T. Miniely, FCA, Managing Partner of Miniely & Tower LLP, Edmonton, Wainwright, Breton. Opinions expressed in this article are those of the author and do not reflect the official position of ICAA.

Over the past two or three years, our firm entered into informal arrangements with four sole practitioners for a gradual practice transition. We thought it wise to establish a comfort level with the clients by entering into an association, thereby introducing our firm gradually while the sole practitioner was still active. Unfortunately, that was not possible in all cases since three sole practitioners passed away suddenly. We've had to respond quickly in the best interest of the deceased's families, the clients, and our firm. Our approach has received an excellent response, and we have been asked to share it with other CAs. These are the principles which have guided us.

1. Be sensitive to the family of the deceased practitioner. Do not nickel and dime the financial issues: In the long run, their goodwill is more valuable to you than a minor amount of money.

2. Ensure that every person in your firm treats the deceased practitioner, and the client relationship established with professionalism, dignity, and respect. Under no circumstances be critical of the deceased practitioner, whether you would do things differently or not.
3. Be prepared to honour the relationship established between the client and the deceased practitioner. There is a reason why they dealt with that person. You will have to earn the same trust and respect over time. Assure the client that there will be no surprises, no sudden jump in fees that are not discussed in advance, and thereby allow the client a choice.
4. Ensure effective communication. The choice of words, both written and verbal is extremely important. Anticipate and deal immediately with the client's concerns: change, continuity of accounting and tax work, and fees.

The following are some examples of the words we have chosen to deal with the clients concerns.

Note:

1. Wherever "Deceased CA" appears, there should be inserted the name of the deceased CA.
2. Wherever "New firm name" appears, there should be inserted the name of the successor firm.
3. Wherever "New CA firm partner" appears, there should be inserted the name of the CA firm partner.

A. TO DEAL WITH CHANGE

"Deceased CA" selected our firm to look after (*his/her*) clients, because (*he/she*) was familiar with us and was confident that we would honour the relationship and the quality and cost of services provided to them.

B. TO DEAL WITH ACCOUNTING OR TAX TREATMENT CHANGES

Accounting and tax matters are constantly evolving, our current interpretation leads us to conclude that the matter should be handled this way.

C. TO DEAL WITH SERVICE AND FEE CONCERNS

You can be assured that we will not change the professional services or the fee for the services, without prior discussion with you.

If these emergency transitions are handled well, they provide an opportunity to enhance the reputation of your firm, the profession, and establish new relationships. On the practical side, also ensure that you train employees regarding these principles. Designate a mature, effective communicator to oversee the transition and communicate, in writing, to the clients. Do this very early in the process in a dignified and sensitive manner followed up by telephone conversations and face to face meetings to deal with any concerns they have.

We have taken care to compose letters to the clients from the firm and from the deceased's spouse or family that we hope meets the principles outlined. (See **Appendix C**)

GIFI SCHEDULE 141

There has been a lot of confusion about the redesigned Schedule 141 in GIFI, specifically in completing the section "Involvement of the Accountant". So much so that CRA has posted answers to the frequently asked questions and will be revising the form again next spring. If you have questions about completing Schedule 141, visit CRA's website at www.cra-arc.gc.ca/tax/business/topics/corporations/return/what/gifi/list-e.html.

SUGGESTIONS FOR THE NEXT ISSUE?

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



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APPENDIX A

COMMUNICATION WITH THOSE HAVING OVERSIGHT RESPONSIBILITY FOR THE FINANCIAL REPORTING PROCESS On CA letterhead

Communication Prior to the Completion of the Audit

[Date]

The Audit Committee [Board of Directors or President or Management]

Dear Audit Committee Members:

We have been engaged to audit the financial statements of [entity] (the Company) for the year ending December 31, 20xx. Canadian generally accepted auditing standards (GAAS) require that we communicate with you prior to the completion of the audit.

Scope and Purpose of Engagement

The scope of our work for the 20xx results includes the following:

- An audit examination of the financial statements of the Company for the year ending December 31, 20xx.
- We are engaged to express an opinion on these financial statements as to whether they are in accordance with Canadian generally accepted accounting principles.
- Our work is designed to provide reasonable but not absolute assurance as to whether the financial statements are free of material misstatements.
- The financial statements are the responsibility of management.

Auditor's Responsibility

Our responsibilities include:

- Conduct the audit using staff with adequate technical training, proficiency in auditing, due care and objectivity.
- Assess the risk that financial statements may contain material misstatements, including those resulting from fraud or error.
- Examine, on a test basis, sufficient and appropriate evidence to support the amounts and disclosures in the financial statements.
- Assess the accounting principles used and their application.
- Assess the significant estimates made by management.
- Obtain a sufficient understanding of internal controls in order to plan the audit including management's assessment of the risk that the financial statements may be materially misstated as a result of fraud and error and the internal controls put in place by management to address such risk.
- Express an objective opinion as to whether the financial statements present fairly in accordance with Canadian generally accepted accounting principles the financial position, results of operations, changes in fund balances, and cash flows.

As well, GAAS requires us to inform the audit committee or equivalent of those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. This would not include misstatements deemed trivial and not accumulated if we expect the accumulated amounts clearly would not have a material affect on the financial statements. We shall issue a separate communication to you at the end of the audit.

In addition, GAAS requires us to communicate with you annually on matters relating to our independence, which we shall do by issuing a separate communication at the end of the audit. (See sample in Professional Engagement Manual.)

Management's Responsibilities

Management responsibilities as they relate to financial reporting include:

- Design and maintain accounting systems and records.
- Ensure accurate and complete recording of transactions.
- Select and apply proper accounting policies.
- Ensure the safeguarding of assets.
- Implement and ensure the continued operation of internal controls designed to minimize the risk of fraud and error occurring and maximize the chance of detection if they do occur.
- Establish procedures to ensure compliance with Canadian generally accepted accounting principles.

GAAS requires the auditor to make direct inquiries of management regarding the above management responsibilities and receive the following representations from management:

- a) that management is responsible for the implementation and operation of internal controls that are designed to prevent and detect fraud and error;
- b) that management believes the effects of uncorrected financial statement misstatements aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole;
- c) that management has disclosed all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;
- d) that management has disclosed the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Audit Approach

We wish to share with you aspects of our audit approach to help you discharge oversight responsibilities. Our general approach to the audit of The XYZ Organization incorporated a combination of controls testing and substantive testing of account balances as follows:

- General risk assessment and understanding of management control environment
- Combined substantive and control testing in the areas of:

[Include relevant areas of the financial statements.]

The procedures may include the testing of individual transactions, confirmations of revenue to external sources, reasonableness testing and analytical comparisons to prior years and budgeted amounts.

- Substantive testing of the following major areas:

[Include relevant areas of the financial statements and sample procedures.]

- Materiality for the audit was set at \$_____

[Include all other items discussed in CICA Handbook Section 5751.14 as appropriate, such as preliminary assessment of internal controls and related audit work, affects of new standards or legislation, reliance on other auditors, use of work by company's internal audit staff; use of specialists, and other areas of interest to the audit committee or management or concerns identified by them.]

We shall be pleased to discuss with you further any matters mentioned above at your convenience.

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

Yours truly,

Chartered Accountants

Caution to Members

The Professional Advisory Services Department of the Institute of Chartered Accountants of British Columbia has provided this sample communication for illustrative purposes only. This is not an official position of the Institute. Members should revise the communication to suit their needs and their clients' circumstances. It is up to the members' professional judgment in how they wish to use this sample communication in complying with Canadian generally accepted auditing standards.

**PROFESSIONAL LIABILITY INSURANCE
STATISTICS FOR NOVA SCOTIA
PROVIDED BY AICA SERVICES INC**

TABLE 1

NUMBER OF CLAIMS BY SIZE OF FIRM 1999 - 2003	
Number of Employees	Number of Claims %
1	19
2 - 5	29
6 - 10	32
11 - 20	10
21 - 50	10
Total	100

TABLE 2

CATEGORIES OF CLAIMS 1999-2003		
Area of Involvement	Number Of Claims Nova Scotia %	Number Of Claims Canada %
A Audit	0	8.5
B Review	3	4.6
C Non-Review	7	9.4
D Tax	61	52.0
E Management Consulting	0	.4
F Receiver/Trustee in bankruptcy	3	4.5
G Fee dispute counterclaim	3	5.1
H Shareholder's dispute	3	1.0
I Purchase/Sale Agreement	7	4.0
J Valuation	7	10.5
K Allegation Fraud	3	combined with J
L Financial Advice	3	combined with J
	100	100

TABLE 3

INCURRED EXPENSE 1999 - 2003		
Area of Involvement	Nova Scotia %	Canada %
A Audit	0	23.6
B Review	1	1.9
C Non-Review	24	4.5
D Tax	59	49.1
E Management Consulting	0	0.0
F Receiver/Trustee in bankruptcy	0	1.6
G Fee dispute counterclaim	0	1.8
H Shareholder's dispute	0	4.0
I Purchase/Sale Agreement	1	5.7
J Valuation	13	7.8
K Allegation Fraud	1	combined with J
L Financial Advice	1	combined with J
	100	100

**PROFESSIONAL LIABILITY INSURANCE
AREAS OF CONCERN
(INFORMATION PROVIDED BY AICA SERVICES INC)**

Income Tax Act - Section 84.1

- Deemed dividend
- Reorganization of shares
- Non-share consideration
- "Juliar decision" - rectification

The most common tax claims arise from Section 84.1. The typical scenario is that there is some estate planning occurring where a father wants any future appreciation in the value of shares in his company to go to his children but wants to maintain control of the company. A corporation reorganization is done to achieve this goal. The accountant inadvertently believes that there is an opportunity to take non-share consideration out of the company via a capital gain, which would be subject to a capital gains exemption. (i.e. Shares worth \$100,000 of OPCO are transferred into HOLDCO and in exchange, shares of HOLDCO worth \$1 and a note receivable of \$99,999 is taken back. Normally the PUC and ACB of OPCO's shares are nominal). Section 84.1 is triggered where the intended capital gain is treated as a deemed dividend instead for the difference between the non-share consideration and the lower of the ACB and the PUC. The taxpayer was told no taxes would flow because of the capital gains exemption but instead is faced with taxes on a taxable dividend.

The taxpayer seeks recovery of the taxes from the accountant alleging that he/she would not have proceeded with the transaction if he/she knew that it would attract taxes.

We have had success reversing the transaction in these cases where there is no draw down on the notes receivable. The method used is known as rectification where an argument is raised with the courts that the transaction that took place did not reflect the intention of the taxpayer. The courts will allow the transaction to be reversed but it costs between \$30,000 and \$60,000 to rectify a situation.

Purchase and Sale Agreements

- Conflict of interest
- Multiple of earnings
- Tax planning

Three main points to consider:

1) The accountant is often in a conflict of interest position by acting for both parties. This is very difficult to defend because normally advice to one party is not in the best interest of the other party. We advise that a letter be sent recommending that both parties receive independent legal advice and that at least one of the parties if not both receive independent accounting advice. The same can be said for matrimonial disputes when the insured has done husband's and wife's personal tax returns.

2) The amounts at stake are much higher in these claims and errors are magnified because discounted cash flows or multiple of earnings are often used to determine purchase price. We have a situation where there was an alleged GST error on the statements for \$900,000 but damages being sought are \$15.1 Million because of the earnings multiple argument. Accountants may need to reduce materiality in purchase and sale situations.

3) Outsource your weaknesses. Accountants will often get involved in the valuation of a company that they were accountants for even though valuations are beyond their expertise. It is difficult to say no to the fees but often times we see an inadequate valuation performed. There is also an expectation gap where the client believes they are receiving an exhaustive valuation while the accountant is providing a limited valuation based on their limited expertise in the area.

HST

- Who is responsible for filing?

There have been a few claims where the accountant performed a review engagement but failed to compare HST with sales. The courts came down hard on the accountants asserting that a simple calculation could have detected the inadequate remittance of HST. We were successful in arguing contributory negligence on the company for failing to remit proper HST.

**PROFESSIONAL LIABILITY INSURANCE
MINI -CASE STUDIES
(INFORMATION PROVIDED BY AICA SERVICES INC)**

SHAREHOLDER'S DISPUTE/PURCHASE AND SALE AGREEMENT

Scenario

- Company X has shareholders, Donovan Johnson and Michael Bailey.
- The two shareholders do not get along.
- They ask you to do a valuation of the company and let them know what is the fairest tax scenario to dispose of the shares from one shareholder to the other.

Recommendations

- Write to both or at least to one of the shareholders that they seek independent accounting advice.
- Recommend in writing to both shareholders that they seek independent legal advice.

** Most tax options are advantageous to one shareholder yet detrimental to the other. It is therefore difficult, if not impossible, to be fair to both parties.

CLIENT PETITIONED INTO BANKRUPTCY

Scenario

- Trustee contacts you requesting to review working papers.

Trustee may be on a "fishing expedition" looking for negligence.

Recommendations

- Contact your insurer.
- Write to the trustee on a "without prejudice" basis agreeing to be co-operative but requesting specifics as well as an explanation as to why information is required.
- OK to provide the trustee with source documents of the client but remember the working papers are yours.

NOTICE TO READER

Scenario

- You are engaged to prepare financial statements as well as corporate tax returns for your client.
- The client advises you that the bank wants to use the financial statements in consideration of issuing a loan.

Recommendations

- Write to the bank advising it of the limitations of Notice to Reader financial statements.
- Write to the client advising that a report with higher assurance should be considered.

Tax Shelters

Scenario

- Your client is tired of paying too much tax.
- He wants to know if you are aware of any tax shelters.

Recommendations

- Do not introduce him to tax shelters that your other clients might be involved in without a disclaimer in writing.
- Only provide advice in writing with respect to soundness of investment from tax standpoint.
- Be careful to consider: "reasonable expectation of profit" and "at risk amount".

EMERGENCY PRACTICE TRANSITION - A POSITIVE PROFESSIONAL APPROACH

SAMPLE LETTER FROM DECEASED CA SPOUSE

You may have already heard of the sudden passing of my (*husband/wife*) "**Deceased CA**". Prior to (*his/her*) death "**Deceased CA**" was concerned that (*his/her*) clients should receive continuing quality professional services. I have met with the managing partner of the (**New firm name**) Chartered Accountants and I know that my (*husband/wife*) had selected them as a good fit for (*his/her*) clients. (**New firm name**) Chartered Accountants have offices in (City 1, City 2 and City 3). Your files will be maintained as in the past and (*Mr. /Ms.*) (**New CA firm partner**), the managing partner has agreed to honour the practice transition. (*Mr. /Ms.*) (**New CA firm partner**) will contact you soon to ensure that your work is looked after. You may contact (*him/her*) at the (City 1) office at (xxx-xxx-xxxx).

I thank you for the professional relationship you had with "**Deceased CA**". I have met with (*Mr. /Ms.*) (**New CA firm partner**) and am confident they will look after you well.

I wish you success in the future.

Sincerely,

"Spouse"

SAMPLE LETTER FROM NEW CA FIRM

Due to the recent passing of "**Deceased CA**", "**Deceased CAs spouse**" asked me to contact "**Deceased CA's**" clients to ensure that any jobs in progress are completed, and to discuss future accounting needs.

"**Deceased CA**" wanted to ensure that (*his/her*) clients would continue to receive the same quality of professional accounting services that (*he/she*) provided. (*He/she*) selected our firm because (*he/she*) was confident that we will honour that commitment and dedication to you.

We are a small firm committed to providing quality professional services to smaller owned and operated enterprises at a competitive cost. Our offices are located in (City 1, City 2 and City 3) and we are therefore well positioned to service all of your accounting needs. I have enclosed our firm brochure that describes our philosophy and services.

I will personally contact you in the near future, and look forward to meeting you.

If you have any requirements in the meantime, please to not hesitate to contact me.

Yours truly,

(**New firm name**) Chartered Accountants

(*Mr. /Ms.*) (**New CA firm partner**)

These sample letters appeared in the September 2004 issue of Practice Advice Bulletin, published by the Institute of Chartered Accountants of Alberta and are reprinted with the permission of ICAA. The letters were provided by Gordon T. Miniely, FCA, Managing Partner of Miniely & Tower LLP, Edmonton, Wainwright, Breton. The sample wording expressed in these letters is that of the author and does not reflect the official position of ICAA.