



# THE PRACTITIONER'S VIEW

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## DIFFERENTIAL REPORTING - REVISITED

The June 2002 issue of *The Practitioner's View* included an in-depth article on differential reporting. It noted that differential reporting may only be applied when an entity (referred to as a "non-publicly accountable enterprise") meets certain specific criteria, including:

- **All owners**, including those not otherwise to vote, provide **their unanimous consent in writing, and**
- Owner's consent must be given **prior to the date of completion of the respective financial statements.**

This shouldn't be a practical issue if the wording of the consent to the initial application of differential reporting indicates that it remains in effect for subsequent years until rescinded by the owner. When owners give initial consent, they need to be clearly informed of their right to withdraw consent at any time.

**Any change in either selected options or ownership will require a renewal of the consent of all owners.**

When all of the owners of a non-publicly accountable enterprise agree to apply differential reporting options, other financial statement users are made aware of the basis of reporting by appropriate disclosure (Section 1300.09). Appendix B of this Section provides examples of appropriate note disclosure.

Adoption of differential reporting will also impact the practitioner's audit and review engagement reports, as well as the management representation letter. In order to address assurance matters related to the new Accounting Section, the ASB recently approved revisions to *The Auditor's Standard Report*, Section 5400, *Public Accountant's Review of Financial Statements*, Section 8200, and Assurance and Related Services Guideline AuG-20, *Performance of a Review of Financial Statements in Accordance with Sections 8100 and 8200*.

Details of the revisions are discussed in the latest issues of Assurance Standards Update (August 2002) and Practice Advice (September 2002).

## NOTICE OF OBJECTION – "Reasons and Relevant Facts"

*(The following article is reprinted from the ICABC News 'N Views – July 2002)*

CCRA tells us, based on their review of Notices of Objection filed, that the 'Reasons and Relevant Facts' section on Notices is frequently poorly completed. The lack of specificity and relevant details is a major contributor to slowing down the processing of appeals. We have summarized below our understanding of these two terms based on our discussions with staff in CCRA's Appeals Branch and hope they will come in handy the next time you have to prepare a notice of objection.

### Definitions

A fact is something known with certainty (e.g., an event that has happened, a transaction that has occurred). A fact is relevant when it is pertinent or has a bearing upon the case or issue at hand. The word *relevant* implies that there is a connection between the fact and the issue(s) at hand.

### Facts vs. Law

The issues in dispute usually fall within two categories: (1) question of fact and (2) question of law.

The first category involves the facts that were assumed by CCRA in issuing the assessment. The taxpayer may believe that CCRA relied on incorrect facts, misunderstood the facts, or did not have all the relevant facts. In addition, he/she may disagree with the *relevancy* of some or all of the facts CCRA assumed in making the assessment.

The second category involves the interpretation of the law, that is, the taxpayer believes that CCRA has incorrectly applied the law based on the known facts.

### Filing Notice of Objection

When preparing a Notice of Objection, it is important to identify and preferably give a brief description of the disputed issue(s). When the issue is a question of fact, it is crucial to identify the facts that may not have been available to CCRA at the time the assessment was made.

How do you find out the facts that CCRA assumed in making its assessment? It is usual practice, at the audit stage, to provide the taxpayer with a proposal letter explaining the adjustments. Upon request, CCRA can also provide the taxpayer with a copy of the Auditor's Report (subject to any severing necessity to protect confidential information) that explains the basis of the

assessment. For assessing actions done without audit, you may refer to the explanation of the changes on the assessment notice and to any related correspondence from CCRA to your client.

If the taxpayer agrees with the facts but disagrees with the application of the law to those facts, then the notice of objection should indicate that the facts are not in dispute and clearly state the reason(s) why the facts support a different application of the law.

It is usually helpful when identifying relevant facts to look to the provision(s) in the *Income Tax Act* or *Excise Tax Act* upon which the CCRA based its assessment. This will assist you in identifying the facts that are relevant to the particular provision(s) and then, by reference to these facts in providing the reason(s) why you believe the assessment is incorrect.

#### **Example of an Incomplete Notice of Objection**

"The taxpayer claimed expenses which the Minister disallowed by reassessment dated January 5, 2001. The expenses were incurred for business purposes and accordingly the reassessment should be reversed."

The above example does not provide CCRA with any information that it does not already know. What the objection does not tell CCRA is why the taxpayer disagrees and the facts in support of the taxpayer's contention that the expenses were incurred for business purposes.

The importance of providing all the necessary information to enable the Appeals Branch to make a decision (i.e., all the relevant facts, supported by corroborating evidence, and the reasons for objecting) cannot be stressed enough. A well-prepared notice of objection will help CCRA fully understand your client's position and view the disputed assessment in a timely manner. For more information, ask for the brochure "Your Appeal Rights Under the *Income Tax Act*" at your local tax office.

## **GIFI T2 SCHEDULE**

(The following article is reprinted from the ICABC News 'N Views – July 2002)

Practitioners may have notice a change in the latest version of Schedule 141, Notes Checklist. In 'Part 1 – Involvement of Accountant', there are now two new options to select from:

- Box 6: An independent accountant with a compilation and review engagement resulting in no reservation; or
- Box 7: An independent accountant with a compilation and review engagement resulting in a reservation.

We attempted to clarify these two options with CCRA who tell us that they are just offering additional options to cover possible real life scenarios where accountants may perform both a compilation and review at the same time. We believe that it is highly unlikely members would be in that situation, but it is CCRA's form and they can add any number of tick boxes as they deem necessary. We believe our members will most likely select from the first five items of the choices provided.

## **PROFESSIONAL LIABILITY INSURANCE**

Forms for the annual declaration of professional liability insurance coverage were sent out in June, to be returned by September 1. If you have not already completed and returned your form, please do, as soon as possible or contact Wenda Bennett at [wbenett@icans.ns.ca](mailto:wbenett@icans.ns.ca) for a replacement form.

## **HAVE YOU HEARD THE ONE ABOUT THE PAPERLESS OFFICE?**

We have all heard the promise of technology to eliminate the mass of paper we all deal with on a daily basis. So how is that working out for you? The truth for most organizations is that computers actually generate more paper than ever before, even though a great deal of it ends up in the recycle bin. So what are we doing wrong? The technology certainly exists to drastically reduce (I won't say eliminate) our use of paper. Why don't we use it?

The answer for most organizations is a combination of a) lack of trust in electronic storage methods, b) lack of processes to simplify electronic storage and access to stored information, and probably most importantly, c) resistance to change. The first two factors are relatively easily addressed, and the third will follow as the benefits become clear.

So what are the benefits of reducing our dependency on paper? Let's consider some of the paper associated with an average audit client:

- Direct client correspondence (engagement letter, management letters, invoices, etc.)
- Client-related correspondence (bank confirmations, customer and supplier statement reconciliations, legal letters, etc.)
- Copies of client records (bank statements, invoices, assessment notices, etc.)
- Working papers and supporting documentation
- Financial statements

With very few exceptions, all of this can be stored electronically, in "soft copy", and actually increase the security and availability of that information.

A paper file is like a single copy of a book in a library; when it is being used by one person, it is unavailable to anyone else. It is subject to damage or loss. It takes time and effort to physically transport to from one location to another. Once information is stored electronically, it is accessible to more than one person simultaneously. It is easily published or transported, so that another office that may need access to a client's file has quick and easy access to that information. It can be easily copied for backup purposes, in case the original is somehow damaged or lost. And it can be protected from unauthorized access and alteration, introducing a strong quality-control mechanism.

Then of course, there is the cost to consider. Paper is expensive, believe it or not. We need to consider the production costs (the paper itself, the photocopiers/printers and toner, the time to generate it), the storage costs (file folders, cabinets, secure floor space for current files, secure storage for archives) and the usage costs (time to find a file, transport it, return it, and refile it). Soft copies require hardware and storage space, but the cost is minimal in comparison to the paper alternative. The time to find a file still exists, but in a well-organized electronic filing system, it should be minimal, and geography is no longer a significant issue. The original file is never physically removed like a paper copy, so it is always available to anyone who may need it, and it will never be misfiled.

So how do we do it? Although there are many document management systems available, the basics don't have to be complex, and are available to any size firm or business. The paper-filing model actually translates quite well to an electronic one, with minimal capital investment. Documents we create are often created on a computer, and there may be no need to ever print them. Documents that we receive from other sources can be scanned and stored electronically. The filing system doesn't initially need to be much different than the paper one, except that the client's file is now on the network or on a CD instead of in a filing cabinet. As the value of electronic storage is realized, users will demand more capabilities, such as searching the entire file system for any references to a particular client. The system can systematically expand as required to a more complex document management system.

In the meantime, here are some simple methods to start on the road to paper reduction:

- Establish an electronic filing system and make everyone aware of it. Files should be logically organized, and accessible by everyone who needs access. Conventions should be established for naming and locating files. Electronic security

measures should be taken to ensure that the filing system remains organized, and information remains intact. This is all easily done with basic network operating systems.

- Start by eliminating paper in your current activities, not by trying to convert existing paper records to electronic ones. Avoid printing documents unless absolutely necessary. Scan incoming paper when it arrives, and toss the original.
- Make scanners available to employees. Include a portable scanner as a standard part of the on-site technology, so that client information can initially be captured electronically. Scanning is really no different procedurally than photocopying, except that the output is electronic rather than physical.
- Decide on a standard format for storing documents, which should not be modified, both for security and convenience (i.e. Adobe Acrobat, PNG, TIFF, etc.). That way, all users can read the document regardless of the software or process originally used to generate it. This also prevents unintentional modifications to the original.
- Review soft copy, not hard copy. Changes can be made directly on soft copies, and/or highlighted for review. Multiple people can review at once, or consecutively. The process can be automated so that the file travels immediately to the next reviewer, who could be in another city. This can all be done with basic office productivity tools that most of us use today.
- Leverage your intranet if you have one, or establish one if you don't. Publish common information on the intranet rather than on paper. Information can be kept current, as well as accessible to employees at remote locations. This works well for reference material, staff directories, client lists, newsletters, and common forms. Automate common administrative processes via the intranet, such as time and expense reporting, travel and vacation requests, etc.

Moving toward electronic storage and document management doesn't have to be a monumental undertaking. We can all start with some simple steps to reduce the paper chase.

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## CHARITABLE ORGANIZATION STATUS

Do you ever check your client's registered charitable organization status under the *Income Tax Act* as a part of your audit? If this status has been revoked, your client can no longer issue tax-deductible donation receipts. It is

very simple to check their status by calling CCRA at 1-800-276-2384.

Also, consider checking the *Nova Scotia Registry of Joint Stock Companies* website at [www.gov.ns.ca](http://www.gov.ns.ca) to ensure your client is not in default for non-payment of fees and that information regarding officers and directors, etc. is current.

## CAMagazine

The September issue of CAMagazine introduces a Regular feature on fraud, to be published every other month. The first column offers sage advice on what steps to follow when fraud is suspected in the workplace.

## NEW AUDIT STANDARDS CLARIFY AUDITOR'S RESPONSIBILITY TO DETECT FRAUD

As noted in the June issue of this newsletter, revised Section 5135 **will apply to all December 31, 2002 year-end audits.** This section provides guidance on an auditor's consideration of fraud risk factors. In clarifying the auditor's responsibility to detect fraud, it states that a properly conducted audit is less likely to detect fraud than error, and less likely to detect management fraud than employee fraud.

This revision is a **significant change** to Generally Accepted Auditing Standards and now requires auditors to do more work. All firms performing audits must be aware of and implement changes to their programs and procedures as necessary to comply with the new standard. The next update to *The Professional Engagement Manual (PEM)*, to be issued in October, will include revised planning forms and guidance on how to incorporate the new rules on fraud into practice.

In the meantime, look for in-depth discussion of this topic in the March 2002 issues of Risk Alert (CICA newsletter) and *Focus on PEM*, for members who subscribe to PEM. As well, ICANS is offering a one-day seminar on "Fraud Awareness for CAs in Public Practice" on October 30. Check out details in the fall 2002 PD catalogue.

## UPCOMING PD COURSES

The editorial in a recent AccountingWEB communication challenged professionals to re-assess their commitment to ongoing education, and rededicate themselves to a concept of lifelong learning. This means a commitment to continually re-tooling and re-inventing ourselves with new ideas, new skills, new service offerings, new levels of client understanding, and new approaches to our jobs.

It went on to say, "We cannot become what we need to be by remaining what we are. The marketplace is demanding more sophistication from our profession. The Government is requiring it. Employers expect it. Clients crave it. And you owe it to yourself to take a fresh look at what "continuing education" means to today's accounting professional so that you don't become obsolete before your time."

On that note, ICANS has planned a number of interesting courses, as outlined in the 2002 Fall/Winter catalogue, recently mailed to you. Check out "Analytical Procedures", a new one-day session being offered this year on December 4.

## PRACTITIONER SURVEY

Participants in the 1999 Survey found the information so useful that ICANS decided it was time for an update. The 2002 Public Practice Statistics Questionnaire is being sent out in September, with the release of the results scheduled for December.

If you wonder whether your practice is competitive with respect to charge out rates, productivity, salaries, benefits, per diem rates, for all levels of staff, as well as computerization, to mention just a few topics - **complete this questionnaire.**

Results are private and confidential and for **survey participants only.**

## HUMOR CORNER

*(From the Globe & Mail – "Thanks to the Enron scandal...")*

Accountant's jokes may be subtly different from those enjoyed by the general public. A civilian's joke: "Why did the accountant cross the road? So he could bore people on the other side." An accountant's joke: "Why did the auditor get run over crossing the road? Most auditor's never do risk assessment until well after the accident happens."

## 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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NEWSLETTER TO YOUR STAFF  
– DUPLICATION IS  
ENCOURAGED**