



# THE PRACTITIONER'S VIEW

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## REAL ESTATE TRADING REMINDER

The Registrar of the NS  
Real Estate Commission

has requested that we again remind members that the Real Estate Trading Act governs transactions that involve the sale of real estate. In the September 2000 issue of Practitioners View, we advised that CAs who may be assisting their clients in the disposal of businesses might inadvertently be in violation of this Act. While the Commission has been patient in dealing with such incidents, it has little alternative but to enforce the Real Estate Trading Act to protect its members.

All members in public practice may wish to review the September 2000 Practitioners View article on our website and should review the Act at [www.gov.ns.ca](http://www.gov.ns.ca) to be aware of its implications on advising and assisting their clients.

## AUDITOR'S STANDARD REPORT CHANGED

Effective March 2001, the CICA Handbook was amended to reflect the requirement for assurance engagement reports to identify Canadian practices as the basis for the report. The new required wordings are "*Canadian generally accepted auditing standards*," "*Canadian generally accepted standards for review engagements*," and "*Canadian generally accepted accounting principles*." Members are reminded to amend their financial statement templates to reflect these changes.

## GENERAL INDEX OF FINANCIAL INFORMATION (GIFI)

The question has been raised about what report (if any) should be attached when GIFI information is provided to clients. It is our understanding that GIFI is considered to be "financial information" as contemplated in Section 9000 of the CICA Handbook.

Accordingly, it is recommended that you attach a Notice to Reader (a stamp is acceptable) if you release the GIFI schedules. NOTE: CCRA requests that members and firms NOT stamp GIFI schedules submitted to CCRA, as this disrupts the scanning process and slows down the processing of your client's returns.

## CONDOMINIUM CORPORATIONS

The March 2001 issue of Practitioner's View included an article that addressed a concern for auditors related to one of the new regulations under the Condominium Act.

It appears that many practitioners were unaware the Act had changed. In February of 1999, the amendments to the Condominium Act contained in Bill 64 were proclaimed, with the exception of certain specified clauses. The Department of Business and Consumer Services advises us "correspondence was sent on February 3, 1999 to all condominium corporations at the most recent address filed with the Department, providing a copy of Bill 64 and information regarding those sections of the Bill that were proclaimed at that time."

The remaining sections of the Act required changes to existing Regulations or new Regulations to provide direction or facilitate their operation. These changes became effective February 16, 2000 and a copy of the revised Bill and amendments to the regulations were again sent to all interested parties. As well, a summary of the issues addressed in the sections of the Act and new Regulations was distributed. A copy of this summary is available from ICANS upon request by contacting Wenda Bennett at [wbennett@icans.ns.ca](mailto:wbennett@icans.ns.ca).

Practitioners who have clients in this area should be aware of the revisions to the Act and regulations, particularly Section 17 of Bill 64 and Section 72B of the regulations that deal with financial statements issues. Members may view the Act and Regulations at [www.gov.ns.ca](http://www.gov.ns.ca).

Under new Section 72B(c)(ii) of the regulations, the auditor is required to express an opinion "on the viability of the plan adopted by the corporation to achieve the required fund amount within the period prescribed in the reserve-fund study". Practitioners are still looking for guidance regarding wording and placement of the opinion, how to respond if a study has not been carried out, etc. The Department has been contacted for further information on these issues.

## 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 for a replacement form.

## STUDENT TRAINING – PRACTICAL EXPERIENCE REQUIREMENTS

The July issue of SCAN referred to a new ASCA program for students that can be completed in one year. The Institute has received calls from practitioners wondering about the impact of this program on practical experience requirements.

At the present time the national Qualifications Committee is studying this issue, with input from our Education Reform Task Force, chaired by Bob Bean of Grant Thornton LLP. Although the new program will be launched in the summer of 2002, the current experience requirements will not be revised until at least 2003. The Institute will be providing regular updates on this matter.

## TOP 10 AUDIT DEFICIENCIES

The April issue of the Journal of Accountancy included an article on costly lessons from fraud-related SEC cases that are applicable whether auditing a public or private company.

Problem areas	Percentage
1. Gathering sufficient audit evidence	80%
2. Exercising due professional care	71%
3. Demonstrating appropriate level of professional skepticism	60%
4. Interpreting or applying requirements of GAAP	49%
5. Designing audit programs and planning engagement (inherent risk issues, non-routine transactions)	44%
6. Using inquiry as a form of evidence (relying too much on this tool)	40%
7. Obtaining adequate evidence related to the evaluation of significant management estimates (failing to gather sufficient evidence)	36%
8. Confirming accounts receivable	29%
9. Recognizing/disclosing key related parties	27%
10. Relying on internal controls (rely too much/failing to react to known control weakness)	24%

The most common problem – alleged in 80% of the cases – was the auditor's failure to gather sufficient evidence. Many of the cases involved inadequate evidence in the areas of

- *Asset valuation.* The auditor did not obtain evidence to support key assumptions.
- *Asset ownership.* The auditor did not obtain evidence to indicate the company owned certain assets.
- *Management representations.* The auditor did not corroborate management responses to enquiries.

Some cases involved the auditor's failure to perform steps listed in the audit program.

**Applying GAAP.** Many of the GAAP violations related to unusual assets with unique accounting valuation issues.

**Audit program design.** Planning the audit engagement is crucial to its success. Specifically, the auditor failed to

- Properly assess inherent risk and adjust the audit program accordingly.
- Recognize the heightened risk associated with non-routine transactions.
- Prepare an audit program (or inappropriately reused one from prior years).

**Audit evidence.** Another common deficiency is over reliance on inquiry as a form of audit evidence. The auditor failed to corroborate management's explanations or to challenge explanations that were inconsistent or refuted by other evidence the auditor had already gathered. Also, there was a failure to challenge management's assumptions and methods underlying the development of those estimates.

**Accounts receivable.** Deficiencies included

- Failure to confirm enough receivables.
- Failure to perform alternative procedures when confirmations were not returned or were returned with material exceptions.
- Problems with sending and receiving confirmation requests (for example, failing to corroborate confirmations received via fax or allowing the client to mail confirmation requests).

**Related parties.** The auditor was either unaware of the related party or appeared to cooperate in the client's decision to conceal a transaction with this party. Such transactions often resulted in inflated asset values.

**Internal controls.** The auditor typically failed to expand testing in light of identified weaknesses in the client's internal controls. In other cases, they seemed to implicitly assume the presence of a baseline level of internal controls, even though the auditor documented that the client essentially had no controls in place.

## AUDITOR SOLUTIONS

**Audit issues.** The three most common deficiencies all reflect engagement management problems affecting many areas of the audit: a failure to gather sufficient, competent evidence, lack of due care and lack of professional

skepticism. The best remedy is for CA firms to evaluate their own quality control systems to ensure policies and procedures to emphasize the importance of proper audit planning, supervision and review, including timely involvement by engagement partners.

**The firm's "tone" at the top.** Firms should

- Define "client" to include not only management but also the entity's board of directors, audit committee and stockholders to ensure the audit team considers all affected parties throughout the engagement.
- Send a signal to staff that providing high quality audit services is a top priority. A firm can do this by emphasizing the importance of audit quality in training programs and annual performance reviews.
- Encourage all personnel to maintain an attitude of professional skepticism that focuses on the auditor's role in protecting the public interest.

**Performance measurement and compensation.** In many of the fraud cases, it appeared auditors simply chose not to pursue identified audit issues because they ran overtime budgets or missed client-imposed deadlines. A clear message should be part of all personnel decisions (hiring, retention and promotion) that the firm values high quality audit services and that all other considerations - including time budgets, firm administration, development of non-audit services and other practice development issues – are secondary.

**Audit planning.** Auditors can best remedy audit planning deficiencies by promoting more extensive and timely involvement by engagement partners and managers in planning the engagement. Such involvement increases the likelihood the auditor will correctly assess risks (both inherent and control) and modify the firm's audit approach (nature, extent and timing of tests) as appropriate.

**Management estimates.** Auditors need to carefully review the underlying data, assumptions and methods a company's management used to develop financial statement estimates. An adequate review requires an appropriate level of both general and industry-specific expertise.

**Related party transactions.** To increase the likelihood of detecting related-party transactions, the auditor should:

- Prepare a list of related parties
- Make inquiries of management regarding the existence of related-party transactions.
- Confirm with the counter-party the nature and existence of material or unusual client transactions, including whether a relationship exists between the counter-party and the client or its management.

Once the auditor uncovers a related party transaction, it must be closely examined to ensure that the transaction is correctly valued and that GAAP requirements are satisfied.

**Reliance on internal controls.** Firms should more closely link internal control evaluations to substantive audit testing.

## THE FRAUD BEAT

The Journal of Accountancy often includes articles on fraud under this heading. The following June and August articles may be of interest to practitioners.

### **Ghost Goods: How to Spot Phantom Inventory.**

Manipulating inventory figures is the method of choice for companies that commit fraud. A 1999 study found that inventory overstatements constituted the majority of asset valuation frauds. The article reviews the trends that the auditor should look for in analyzing a company's financial statements over time as well as a checklist for assessing the risk of inventory fraud. (June)

**Irrational Ratios.** Plugging numbers from a financial statement into certain formulas can yield clues or even telltale signs there's manipulation going on in a company. The ZZZZ Best case is a perfect example of what auditors could have uncovered if they'd had a more recently developed set of ratios to use. (August)

To view these articles in full, visit The Journal of Accountancy website at [www.aicpa.org](http://www.aicpa.org).

## TIPS FOR DELIVERING AN INTERESTING PRESENTATION

For many, making a presentation in public is a difficult and tense process. Advance preparation and a few tips from the pros can go a long way to ease the tension. These tips and ideas will help you prepare and present a smooth presentation.

### **Use Visuals**

Your audience wants you to show them what you are talking about -- literally. Use color graphics, slides, and handouts to get your message across. Use effective visuals to communicate your main points. Research shows that your audience will remember more when you use visual aids to reinforce your words. Visuals are designed to provide your audience with visual reinforcements of your verbal points. They are not supposed to be a presentation crutch for you! Are they easy to read? Simple to follow? Do they illustrate your point? A good rule of thumb is to use two colors in your graphics. More than three will make your visual too busy. Use bullet points only in overhead text presentations; sentences are too long and too busy for visual displays.

### **Get rid of the Podium**

Don't get stuck using the podium as a security blanket. Get out in front of your audience and interact with them. You don't have to zoom around the room but make sure you occasionally move around, especially when the audience is large. If you use nametags or place cards or if you know the names of participants, occasionally incorporate their names when speaking to them. Between addressing them directly

and making strong eye contact, you will keep them involved and interested in your presentation.

### Analyze your Audience

In order to give an effective presentation, you need to know as much as possible about your audience. Find out key demographics of the audience and determine how familiar they are with the subject of your presentation. As you learn more about your audience and their expectations, it is important to do a self-evaluation as well. Are you comfortable speaking to this audience about this subject? Are you the right person for the presentation? How can you prepare to be the right person?

### Always Use Eye Contact and Focus on Your Audience

You are the presenter and the attention is on you. Make sure you maintain eye contact with your audience. As a rule, you should make eye contact with an audience member for three to five seconds. In addition, you should make eye contact with all areas of the room including the back of the room. Scan the room regularly and do not focus on just one participant for too long.

### Be Yourself

Don't try to be something you are not. Audiences can sense a fake in a minute. Develop your own presentation style and use it! Use humor if you are comfortable with that style, and don't forget to keep the audience interested in your topic. Ask the audience for participation, ask questions, promote interaction.

### Remember, You are Presenting, Not Giving a Speech

The worst speakers are those who read straight off their notes. One of the easiest ways to put off an audience is by reading your entire presentation. Prepare your presentation well in advance if possible. Do a few trial runs before you step in front of your audience. Know your material. Remember, when you make eye contact with your audience, you force yourself to focus on them! In turn, you are less likely to read from a script.

Here are some sites that provide additional information on creating successful presentations:

[Building and Giving Presentation Tips](#)  
[Presentation Tips](#), compiled by the University of

Wisconsin's media support group.

Allyn & Bacon's [Public Speaking Website](#).

*AccountingWEB US*

19 June 2001 ([www.accountingweb.com](http://www.accountingweb.com))

Categories: *Self Improvement*, [Top News](#), *Training*

## NEW EXPOSURE DRAFT – GAAP

Here's your chance to make a difference and help your clients get the financial reporting they need. **RESPOND NOW** to the Exposure Draft (ED) on Differential Reporting, also known as "Big GAAP/Little GAAP", which proposes a **major shift in GAAP for private businesses.**

On June 21, 2001, the Accounting Standards Board (AcSB) approved an Exposure Draft on "*Differential Reporting*." The ED introduces a differential reporting regime within Canadian GAAP, which will be open to private businesses with the unanimous consent of all the shareholders, including those not otherwise entitled to vote. Differential reporting provides several exemptions to CICA Handbook disclosure and presentation requirements, as well as certain measurement alternatives. The result should be "simplified" requirements for private business that will hopefully contribute to enhancing the relevance of financial statements to users.

Highlights of the proposed differential reporting options are:

- Non-consolidation of investments in subsidiaries or interests in joint ventures. The interests can be carried on the cost or equity basis. As well, investments subject to significant influence may be carried on the cost basis.
- Disclosure of "fair value" information for financial instruments will be required only where such information is readily obtainable.
- "High/Low" preferred shares issued to related parties in rollover or estate freeze scenarios will be permitted to be carried at the paid up capital amount ("low"), as opposed to the redemption amount ("high"). This will ease some of the concerns arising from CICA Handbook Section 3860 – Financial Instruments.
- Taxes payable method will be acceptable, as opposed to future income taxes – CICA Handbook Section 3465.
- Disclosure for issued share capital only, as opposed to authorized share capital.
- For interim financial statements, year-to-date information and comparison to immediately preceding fiscal year results will be acceptable.

There are disclosure requirements respecting the use of differential reporting and the particular alternatives selected. Further, there will be some disclosure respecting "high/low prefs", and income taxes, but, overall, the goal of simplification should be achieved.

We strongly encourage members and firms to download the ED from the CICA website ([www.cica.ca](http://www.cica.ca)) and carefully review it, as well as, the "Basis for Conclusions" which explains the rationale. The exemptions and alternatives proposed were developed through a rigorous review of the cost/benefit tradeoff in each case.

If you support the proposals (or not!), the AcSB needs to hear from you **before September 30**. It is particularly urgent for supporters of the proposals to send their views, as opponents are highly likely to make their views known. So read the ED, and send in your comments, even if just to say, "I agree with the proposals."

## 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.