

**The Certified General Accountants Association of Canada**  
**Response to the Proposed Registration Process**  
**Canadian Public Accountability Board**  
**November 2003**

Introduction

The Certified General Accountants Association of Canada (CGA-Canada) is a federation of 12 provincial and territorial regulatory bodies who represent 58,000 professional accountants and students across Canada. These professionals work in industry, government, public practice and the public sector. Certified General Accountants provide assurance services in all Canadian jurisdictions. Currently, CGAs enjoy the legislative authority to perform auditing services in British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick Nova Scotia and Newfoundland. We are presently awaiting regulatory changes in Ontario to enact Bill 213 that provides access to public accounting to all professional accountants. CGA-Canada was enacted in 1913 by an Act of Parliament to develop and maintain high standards of education, practice and professional conduct. Provincial and territorial CGA organizations are established by Acts of provincial legislatures thereby ensuring the public interest is well-served by a self-regulatory regime.

The creation of the Canadian Public Accountability Board (CPAB) in Canada is of particular importance to Certified General Accountants on two fronts. Primarily, it is our belief that the public interest is well-served by an independent organization that provides oversight of the audit process of reporting issuers as an appropriate response to recent corporate failures and the need to foster confidence in capital markets. We submit, however, that the effect of the hastiness surrounding the creation of CPAB has created a number of serious flaws. Only a change to By-law 1 will enable its proper functioning and enable the CPAB to fulfill the role that it was created to do – that is, independent oversight of public company audits.

Second, as providers of auditing services, Certified General Accounting firms will be subject to CPAB oversight. It is our estimation that a number of CGA firms may register their intent to participate in the CPAB program.

Our comments will relate to five specific areas: fees, the provision of an initial quality control report, independence standards for auditors, inspections and inappropriate information requests.

### Fees

We believe that it is appropriate CPAB be funded by participating audit firms. This ensures that those who benefit from independent oversight also directly pay for its costs. We note CPAB's counsel that public accounting firms will wish to weigh the costs of participating in the CPAB Review Program versus the benefits of offering audit services. We caution however, that the burden be shared equitably between small and larger public accounting firms. It is our contention that the full cost of participating in CPAB may impede the smaller firm's ability to provide the full range of public accounting services. This would have a negative effect on the marketplace and consequently on smaller reporting issuers. The cost of compliance may add to the cost of capital. These are important issues that, if not addressed, may increase the cost of doing business for both audit firms and their clients. Lastly, the entire fee structure has not been clearly outlined, therefore it is difficult to respond fully to the reasonability of the fee levels.

### Initial Quality Control Report (ICQR)

CPAB indicates that as part of the Intent to Participate documentation, it wishes to receive a description of an intended participant's quality control policies and procedures. This appears to not be an unreasonable request. We are unable to provide further insight into this policy as CPAB's template for IQCR will be organized around quality control elements included in a new CICA standard and the new standard has yet to be exposed for public comment.

We wish however to caution CPAB that compliance may be more burdensome for smaller firms especially if the IQCR is modeled on the International Federation of Accountants ICQC I. We have concluded that ICQC I places an unfair burden on smaller firms.

We question the reliance of CPAB on one professional accounting group to set standards for the independent oversight function. One must question the objectivity of a process that is still largely governed by the audit profession. We unconditionally accept that the audit profession – because of its expertise in the matter must play a role in defining the standards that govern their practices. We are concerned, however, that those standards are developed by one professional group in as much as they would apply to another professional group – this clearly goes against the rights and responsibilities of self-regulation. We invite the Canadian Public Accountability Board to review the standard setting mechanism of the Public Companies Auditing Oversight Board.

Further, as a member body, CGA-Canada will be required to endorse the Statement of Membership Obligations of the International Federation of Accountants (IFAC) when it comes into effect. The first of these obligations commits member bodies and their members to rigorous standards of practice which includes the requirement to implement a comprehensive approach to quality control. The first IFAC Statement of Member Obligation “Quality Assurance” must be applied by member bodies of IFAC in relation to quality assurance review programs for their members performing certain audit engagements of financial statements. It requires firms to implement a system of quality control as detailed in ISQC 1 (International Standard on Quality Control) entitled “Quality Control for Audit, Assurance and Related Services Practices”. CPAB may wish to utilize the contents of the draft Statement.

### Canadian Independence Standards for Auditors

Our concerns relate to the process by which these standards have been developed and have been shared appropriately with the Canadian Institute of Chartered Accountants. We understand that these concerns are being given consideration.

However, we would like to take this opportunity to reiterate that Certified General Accountants are required through the *Code of Ethical Principles and Rules of Conduct* (CEPROC) to uphold the highest standards of independence. Members are obligated to avoid conflicts of interest. We have appended for your reference the appropriate extracts from CEPROC.

In addition, as the Statement of Membership Obligations come into effect, CGAs will be obligated to uphold the IFAC Code of Ethics. We would like to draw your attention to Part 2, Section 8 relating to Independence. This section provides a comprehensive approach to independence, including a framework and application of principles to specific situations.

We are secure in our knowledge that the public interest is well-served through the observance of these obligations.

### Inspections

We applaud the recognition by CPAB that a guiding principle for inspections will be to avoid duplication with inspections carried out by provincial regulatory authorities. In this respect, we would encourage CPAB to familiarize itself with the regulatory regimes in place across Canadian jurisdictions. CGA-Canada could assist CPAB in this matter.

CGA associations are clearly mandated through their respective legislation to set the standards of entry into public practice, continuing registration as well as the review and discipline of their members. They accomplish this in the public interest as mandated by

Acts of provincial legislatures. May we remind CPAB that the Supreme Court of Canada has made it clear that any subordinate legislation (which includes rules, regulations and policies) cannot be inconsistent with other Acts of Parliament or provincial legislation.

In addition, we seek clarification about CPAB's intention to "initially inspect Canadian firms that are not firms of Chartered Accountants" (S. 5). We question why CPAB would not delegate this responsibility to CGA organizations across Canada. As CPAB will familiarize itself with those organizations, it will recognize that an equivalent and equally rigorous inspection program is in place in every Canadian province. Also of concern is the vagueness of what standards will be applied to inspection of public auditing firms and whether they will be applied equally to all firms that perform public audits.

#### Inappropriate Information Requests

Some of the required information that a registering firm is required to provide as part of the Intent to Participate documentation does not appear reasonable. The following required information appears irrelevant to the issue:

- Total audit fees earned by the firm from all clients, whether or not they are reporting issuers, for its most recent fiscal year.
- Total fees earned by the firm from all services to all clients, whether or not they are reporting issuers, for its most recent fiscal year.

#### Concluding comments

We understand that CPAB will be publishing for comment its proposed rules relating to membership requirements, reviews and disciplinary process. We would advise that such proposed rules and process would recognize and respect the obligations under which provincial CGA regulatory bodies are required to function.

We trust that these comments will prove valuable in your deliberations. We look forward to working closely with CPAB as the process unfolds.

**Extract from:  
CGA-Canada Code of Ethical Principles and Rules of Conduct  
(Version 2.2)**

**TRUST AND DUTIES**

Members shall act in the interest of their clients, employers, and interested third parties, and shall be prepared to sacrifice their self-interest to do so. Members shall honour the trust bestowed on them by others, and shall not use their privileged position without their principal's knowledge and consent. Members shall avoid conflicts of interest.

**R202 Conflict of Interest in Audit and Review Engagements**

A member shall, when engaged to audit or review financial statements or other information, be free of any influence, interest or relationship in respect of the client's affairs which impairs the member's professional judgment or objectivity, or which, in the view of a reasonable observer, may have that effect.

**R202.1 Audit and Review Engagements**

A member shall not issue a communication on financial information of an organization unless the member is free of conflict of interest with regard to that organization.

**R202.2 Compilation Engagements**

A member may issue a compilation engagement report as long as appropriate disclosure of any relationship between the member and the client is made in the compilation engagement report.

**R202.3 Participation in Management**

When providing consulting services to an audit or review engagement client, a member may only participate in the decision-making function of the client in an advisory capacity.

**R202.4 Not-for-Profit Organizations**

A member providing audit or review services to a not-for-profit organization may accept an honorary or advisory position other than as an officer or director with that not-for-profit organization as long as the member does not assume administrative or financial responsibilities or make decisions affecting the management of the organization.

**R202.5 Deemed Conflicts of Interest**

If the member or the member's partners in a public accounting practice are engaged to provide audit or review services for a client, and any of the following circumstances are present or were present during the period being reported upon, a member is deemed to be in a conflict of interest:

- (a) the member, any of the member's partners, or any employee of the member assigned to the engagement is a director, officer or employee of the client, or a person in the member's or the partners' or employee's immediate families is a director or officer of the client.



- (b) “close relative” consists of a member’s non-dependent children, step-children, brothers, brothers-in-law, sisters, sisters-in-law, grandparents, grandchildren, parents, parents-in-law, and their respective spouses or spousal equivalents.
- (c) a partner is any person with whom the member practises, or during the period being reported upon, practised the profession of public accounting in the form of a partnership. Partners also include other shareholders in a professional corporation, where allowed.

**R203 Resolution of Conflict of Interest**

A member shall, within ninety (90) days of becoming aware that an appointment contravenes Rule R202, either:

- (a) eliminate the circumstances that cause the member to be in contravention, or
- (b) resign from the engagement.

**R204 Resolution of Other Conflicts of Interest**

Subject to Rules R514 and R519:

- (a) A member shall inform a client or employer of any business connections, affiliations, and interests of which the client or employer might reasonably expect to be informed.
- (b) When recommending a service or product, a member shall clearly disclose in writing to the client any conflict of interest the member may have, or any fees or commissions the member may receive regarding the service or product recommended.
- (c) When selling a service or product, a member shall clearly disclose in writing to the client any conflict of interest the member may have, or any fees, commissions, or profit the member may receive regarding the service or product sold.
- (d) A member shall, when rendering advice to two or more clients who are parties to the same transaction, inform each of the clients in writing that the member’s services have been retained by other parties to the transaction and that the member may derive fees from such parties. Each party to the transaction must also be advised in writing that confidential information obtained may be disclosed to other parties to the transaction. In addition, each party to the transaction must provide written consent to the member acknowledging these terms.

**R204.1 Fees, Commissions and Profits in the Normal Course of Business**

Where it is normal industry practice for the member to receive a fee, commission, or profit, no disclosure is required.

**R204.2 Disclosure of Services Provided to Other Clients**

For members engaged in the practice of public accounting, it may not be necessary to disclose professional services that the member may be rendering or proposing to render to other clients.