



Certified General
Accountants
Comptables généraux
accrédités

Certified General
Accountants Association
of Canada

Suite 800
1188 W Georgia Street
Vancouver, BC
Canada V6E 4A2

Tel: 604 669-3555
Fax: 604 689-5845
www.cga-canada.org

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Paul Lohnes, CA
Director, Auditing and Assurance Standards
The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, ON M5W 3H2

Dear Mr. Lohnes:

Re: Exposure Draft: Quality Control for Firms and Practitioners Performing Assurance Engagements

Thank you for the opportunity to provide a response on the Quality Control Exposure Draft. We hope that you find our input useful in your deliberations.

CGA-Canada is in support of firms developing and maintaining quality control policies and procedures and, as part of our responsibilities as a member body of IFAC, we will continue to monitor our practitioners to ensure that they are fully compliant.

We note the similarities between this document and the IFAC Exposure Draft International Standard on Quality Control 1 (ISQC 1) and ISA 220 that was released in the summer of 2003 to which we provided a response. We also note that many of the issues that we had identified with the IFAC Exposure Drafts have been dealt with in this draft.

Our greatest concern is the inconsistency of including the content of the quality control Exposure Draft in the CICA Handbook. Since its inception, the CICA Handbook has contained only accounting and assurance recommendations. The conduct of members performing these engagements has consistently been governed by our respective ethical codes and that practice management or quality control of performing the engagement has always been contained in our respective practice manuals. For your clarification, you may be aware that CGAs in public practice are required to comply with the CGA-Canada Public Practice Manual (PPM). That requirement is an acknowledged standard in our Code of Ethical Principles and Rules of Conduct. Further, as with the PEM, compliance with the PPM is monitored through our practice review process. It is not surprising to note that the majority of the quality control recommendations at the engagement performance level already exist in the CICA PEM and CGA PPM. It would seem a logical progression to include relevant quality control recommendations for engagement quality control review and monitoring in our respective practice manuals.

In addition, we do not believe that the setting of practice standards is consistent with your mandate. It is our understanding that the mission of the Auditing and Assurance Standards Board (AASB) is to assist the profession in serving the public interest by enhancing the quality of assurance services. CGA-Canada feels the AASB is acting outside its purview in including these proposed standards (referred to as “generally accepted practice standards”) in the Handbook. While we acknowledge that having quality control policies and procedures will provide greater assurance when performing any engagement, we do not feel they should form part of the Assurance Section, but be considered for what they are — standards of practice.

As stated above, we feel strongly that standards of practice should be set by our respective organizations and that this material should reside in our respective public practice manuals. It is our intent to satisfy IFAC’s Statement of Member Obligations 1 (SMO 1), Quality Control and the underlying document International Statement on Quality Control 1 (ISQC 1) in this manner. Shortly, we will be introducing an enhanced quality control program at the

firm level and an enhanced quality control practice review at the affiliate level, primarily using the material contained in SMO 1 and ISQC 1.

We would also like to point out that the referenced supporting documentation as noted on page iii, which will be of use to small firms, of which a majority of our practitioners are, will be available only to CAs. Yet, the requirements apply to all practitioners who purchase this Handbook.

We also provide comments as follows.

Overall comments

We feel the documentation on quality control at the firm level is intrusive to the practitioner. Although a solid system of quality control exists, it is not always formally documented. Examples are: instructing practitioners to promote certain cultures and the requirement to appraise staff. Making these types of requirements part of the practice review process is too controlling, even for a self-regulating organization. As you are aware, in our profession there is a significant increase in regulatory burden and this is a clear example of this.

CGA-Canada feels strongly that a quality control system should apply to all facets of the public accounting firm and not just to those dealing with assurance. Adherence to the Code of Ethics and human resources issues are all items that should be addressed in every firm for every service. But again, these are practice management issues and should be addressed in public practice manuals and continuing professional development offerings.

CGA-Canada is particularly concerned with these proposed standards allowing for peer review of firms' quality control systems. We believe that this is a contradiction to the intent. Practice review by the self-regulatory body results in a more controlled and consistent monitoring of firms.

CGA-Canada is concerned that the reference to the use of a "suitably qualified external consultant" is fraught with issues. As with each CA institute, each CGA provincial association provides confidential advice and guidance to assist the professional accountant on their assessment and conclusion of technical, ethical and other matters (outside the area of taxation). Further, external consultants engaged prior to the release of financial statements or information would be directly associated with that information and, therefore, could be exposing themselves to the risk of lawsuit and the ethics disciplinary process related to that information.

We recognize that external consultants are addressed by IFAC yet, given the self-regulatory system of the accounting profession in Canada, such an option would be unnecessary.

Small Firm

Paragraph .06 introduces the use of a "suitably qualified external consultant." The use of consultants is even more impractical and problematic in a small firm, a small office of a large firm or in a small city environment. How, for example, in a rural community, is a suitably qualified external consultant to be found? Many clients change accountants because of personal issues or fees disputes, making the prior accountant a difficult choice.

Surely, a consultant that would be required to be a part of the process from beginning to end will have substantive costs attached, at a minimum to ensure the consultant knows the business and the client. As most practitioners will tell you, consultants are not really the answer even for day-to-day firm requirements due to such issues as unfamiliarity with the client, office procedures and policies, software, an overall lack of commitment to the firm and even availability. Aside from quantitative issues, how is the person determined to be qualified and what if they are not obligated under our respective Codes? These concerns may lead to a public interest issue.

As well, from a self-regulation perspective, CGA Associations and CA Institutes must have the ability to control the consistency and quality of the review of the quality control standards. The issues identified at the firm level regarding the use of consultants will become the association's responsibility and will impact the ability to discipline as well. We recommend that the last two sentences of paragraph 6 be removed. This function could be performed by the organization. The professional body should establish guidelines as this is the only way to ensure consistency.

This section also speaks to commitment to ethical principles, which is dealt with in the ethical requirement section.

The Handbook contains what the general standard on human resources is in each appropriate section. Generally, the requirement is to have adequately trained and supervised staff. How this is to be accomplished should not be mandated in the Handbook. Please note 5025.27, 5025.30, 5025.43, 5100 and 8100.15 as examples.

Engagement Performance

Paragraph .50 requires that assurance engagements be adequately planned etc., AuG 20 speaks to this issue for Review Engagements and provides more guidance. In addition, there is a reference to the practitioner report which is being used inconsistently.

Paragraphs .52, .53 and .54 provide excellent guidance to planning and supervision. This guidance should be incorporated into the existing relevant sections of the Handbook rather than the additional guidance located in another section.

Paragraph .55 discusses consultation, CGA-Canada wishes to stress that there will be issues with the use of an outside firm. Paragraph .59 is excellent in that it suggested the professional body; perhaps this could be given more prominence in the section.

Paragraph .63 should also include the confidential advisory services available from the professional body.

Engagement Quality Control Review (EQCR)

If there is no objectivity in the review, what value does this add? And, just as importantly, at what cost? Other issues with this review process are that a sole practitioner or a small practice firm would need to hire someone to do the review — this is close to being a peer review. What would be the purpose of an EQCR if it can be done by someone in the firm, a professional peer, or someone that you have engaged? This role, essentially, is performed by the regulatory body as part of the practice review or monitoring process. It provides value — primarily because it is objective and consistent and also because there is the ability to impose remedial action or discipline on the member on a timely basis.

Monitoring

A part of the practice review process would be to monitor and ensure that firms have a system of quality control and ensure that they are up-to-date. This is where the regulatory body plays its most important role in the protection of the public. If such a role was performed by anyone other than the self-regulatory body, this would seem at best redundant; at worst, it would increase the risk to the public. In particular, the section dealing with complaints and allegations as these are usually directed to the applicable self-regulatory body.

Section 5030

Similar observations could be made of Section 5030. Where these are not auditing or assurance standards, but rather practice standards, they should not be included in the Handbook but rather in the CICA PEM and the CGA-Canada Public Practice Manual. As well, many of the sections exist in other parts of the Handbook, such as the sections on planning and supervision.

I hope these comments will prove useful in your deliberations.

Regards,
[Original signed by:]

Anthony Ariganello, B.Comm, CGA
President & COO