

Media Backgrounder

TORONTO, July 17, 2002

Requirements for CA Firms that Audit Public Companies

The Canadian Public Accountability Board (CPAB) requirements that will apply to CA firms that audit public companies will see them establish quality control policies and procedures for such audits. Other CPAB requirements that will apply to firms auditing public companies include *(Canada's major CA firms, which audit the vast majority of public companies, have voluntarily agreed to adopt these requirements in October 2002. The requirements will apply to all other firms auditing public companies within three years).*

More frequent, rigorous inspections

- The improved system will ensure that CA firms that audit Canada's publicly listed companies will undergo more frequent and rigorous inspections, which will be conducted by the independent National Inspection Unit (NIU). Currently, practice inspection is carried out by provincial CA Institutes/Ordre and focuses on individual practising units of a firm. While this effective practice inspection system will continue for CA firms that do not audit public companies, the new system means there will be a greater focus on the complexities encountered in the audits of large public companies. It will also provide an overall assessment of the firms' quality control processes for public company audits.
- Major firms conducting public company audits will now be reviewed annually and subject to a more comprehensive examination of their quality control policies and procedures.
- If the inspection process identifies concerns, the matter will be referred directly to the disciplinary process of the appropriate provincial CA Institute/Ordre for action. The NIU will be able to recommend immediate suspension of a firm or partner if the public trust is deemed to be at risk *(see Sanctions for Auditors backgrounder for further details).*
- Each provincial CA Institute/Ordre has a process for investigating all complaints received about members. If it is determined that professional misconduct has occurred, the sanctions can range from a reprimand, to additional mandated training, to a fine, to suspension to being expelled from the profession and being unable to practise as a CA *(see Sanctions for Auditors backgrounder for further details).* Additional sanctions can be imposed through the justice system.

Adoption of new auditor independence standards

- Draft standards are being developed that will move Canadian auditor independence standards to the world standards recently established by the International Federation of Accountants (IFAC) and will incorporate the U.S. Securities and Exchange Commission (SEC) requirements for public company audits.
- The proposed standards will place limits on the types of non-audit services that firms may provide to their public company audit clients. The services affected include:
 - internal audit services;
 - information technology system design and implementation services;
 - valuation services;
 - legal services;
 - actuarial services; and
 - corporate finance services.
- Independence standards continue to be subject to significant debate internationally, particularly in the U.S., where SEC requirements may change in the near future. Any changes to the SEC and IFAC rules will be monitored and the Canadian independence standards that will be adopted by the profession will then be modified, as appropriate.
- The draft independence standards will be circulated for public comment later this summer and will be adopted by the profession in 2003. However, the major CA firms have agreed to implement the principles of the enhanced auditor independence proposal when the CPAB is established in October 2002.

Audit partner rotation

- Under the audit partner rotation requirements, an individual cannot serve as the audit engagement partner of a public company audit client for more than seven consecutive years.

Second partner review

- The new system requires a second partner review to be performed for each public company audit. The purpose of the review is to provide an objective assessment of the appropriateness of the key judgments made and the conclusion reached in formulating the audit report and whether the engagement team has complied with the firm's quality control policies and procedures for public company audits.

Consultation

- CA firms will also be required to establish internal procedures to require consultation on all difficult, contentious or sensitive matters. These procedures must include documentation of the conclusions of the consultation process. While many firms now have such procedures in place, the new system makes it mandatory.

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