

FOCUS ON PRACTICE REVIEW – 2023

CPA Alberta's Practice Review program plays an essential role in protecting the public by:

1. Assessing firms' compliance with professional standards and taking appropriate follow-up action or remedial action in instances of non-compliance; and
2. Providing one-on-one interaction and education to firms.

UNDERSTANDING PRACTICE REVIEW

All provinces and territories across the country follow the National Harmonized Practice Inspection/Review Program. While there may be differences in administrative processes, this national program includes harmonization of the objective and scope of practice review, the selection of firms for review, file selection, evaluation and consequences, Committee qualifications and practice reviewer qualifications. The Practice Review leaders in each province meet regularly to monitor consistency of application of this harmonized program.

In Alberta, all professional accounting firms ("firms") and professional service providers ("PSPs") are required to undergo practice review no less than once every three (3) years. The following risk indicators may result in a practice review earlier than the minimum three (3) year cycle:

- Date of registration with CPA Alberta;
- Date of registration with the Canadian Public Accountability Board ("CPAB");
- Significant changes in scope of practice;
- Significant changes in type of clients or composition of registrant;
- Failure to meet professional development requirements;
- Previous practice review results;
- Disciplinary information; and
- Any other information warranting an increased rate of practice review.

At the start of the practice review process, a firm/PSP is required to provide up-to-date information on its practice, and then CPA Alberta's Practice Review team coordinates a date for the practice review to take place. Some practice reviews take place onsite in-person, and other practice reviews take place remotely. Whether your practice review will take place onsite in-person or remotely depends on the nature and size of your practice and whether client files can be provided electronically.

Whether being held onsite in-person or remotely, one or more practice reviewers will select a sample of engagements completed and review considering whether the engagements are completed in accordance with established standards. It is important to note that Practice Review does not set standards. Professional standards assessed against include those in the:

CPA Canada Handbooks	CPA Alberta Rules of Professional Conduct	Tax Management Standards
<p>The most common engagements reviewed include audit, review and compilation engagements.</p> <p>Other engagements reviewed include:</p> <ul style="list-style-type: none"> • Agreed-upon procedures engagements (CSRS 4400); • Direct engagements (CSAE 3001) or direct engagements to report on compliance (CSAE 3531); • Attestation engagements other than audits/review of financial information (CSAE 3000); • Attestation engagements to report on compliance (CSAE 3530); • Compilation of a financial forecast or projection (AcG-16); and • Other engagements in the CPA Canada Handbook – Assurance. 	<p>Rules of Professional Conduct considered include:</p> <ul style="list-style-type: none"> • Independence (Rule 204); • Conflict of interest (Rule 210); • Contingent fees (Rule 215); • Commissions and other compensation agreements (Rule 216); • Communication with predecessor (Rule 302); • Practice names (Rule 401); • Handling of trust funds (Rule 612); and • All other Rules of Professional Conduct. 	<p>The CPA Alberta Board has approved these Tax Management Standards, and the firm/PSP’s tax management practices are assessed against these standards.</p>

The practice reviewer(s) will discuss their findings with the firm/PSP, make a recommendation on compliance and prepare a report to provide to the decision maker – the Practice Review Committee. During the practice review, the practice reviewer(s) also discuss best practices and new standards not yet effective, as well as share available resources.

WHO ARE THE PRACTICE REVIEW COMMITTEE?

The Practice Review Committee (the “Committee”) is comprised of twelve (12) CPA members and one (1) public member who does not hold the CPA designation. Committee members are appointed by the CPA Alberta Board.

Geographic location, practice size, gender and cultural diversity are considered in determining Committee membership. As well, the Committee collectively possesses experience with and technical knowledge of a broad range of sectors, including accounting and auditing relating to reporting issuers, local governments, not-for-profit organizations, pension plans, and private enterprises. Their knowledge and experience also includes both assurance and compilation engagements.

WHAT IS THE ROLE OF THE PRACTICE REVIEW COMMITTEE?

After each practice review, the Committee must assess whether the firm/PSP complies with practice standards and the Rules of Professional Conduct. The Committee holds seven (7) meetings annually and considers approximately 75-90 practice reviews at each meeting. The Committee assesses practice review reports and any comments received from firms/PSPs on an anonymous basis.

Factors considered by the Committee in determining compliance include, but are not limited to:

- The nature and severity of identified deficiencies;
- The number of identified deficiencies;
- The firm's response to identified deficiencies, including those requiring remedial action;
- The firm's quality management systems and whether monitoring was performed;
- The cooperation of the firm;
- The public interest; and
- In a follow-up practice review, the results of the initial review and the degree to which the firm addressed identified deficiencies.

Under the National Harmonized Practice Inspection/Review Methodology, if any one file does not meet standards, the Committee will conclude the firm does not comply with standards.

When the Committee concludes the firm/PSP does not comply with standards, the Committee may take any one or more of the following remedial actions:

- Direct a follow-up practice review;
- Direct the establishment and implementation of a professional development plan, or a plan to maintain and improve professional standards;
- Direct that courses, examinations, tutorial or other forms of professional development or skills training be taken;
- Recommend practice improvement, practical experience or the engagement of a mentor;
- Make a complaint to CPA Alberta's Complaints Inquiry Committee (the "CIC").

If the Committee concludes its directed remedial action has not been effective and other consequences are required to protect the public, the Committee will then refer the matter to the CIC. Matters referred to the CIC by the Committee include:

- Not cooperating with the practice review process;
- Continuing lack of success adhering to professional standards;
- Choosing not to take the professional development directed by the Committee;
- Performing engagements the firm is not registered to perform; and
- Breaching the CPA Alberta Rules of Professional Conduct.

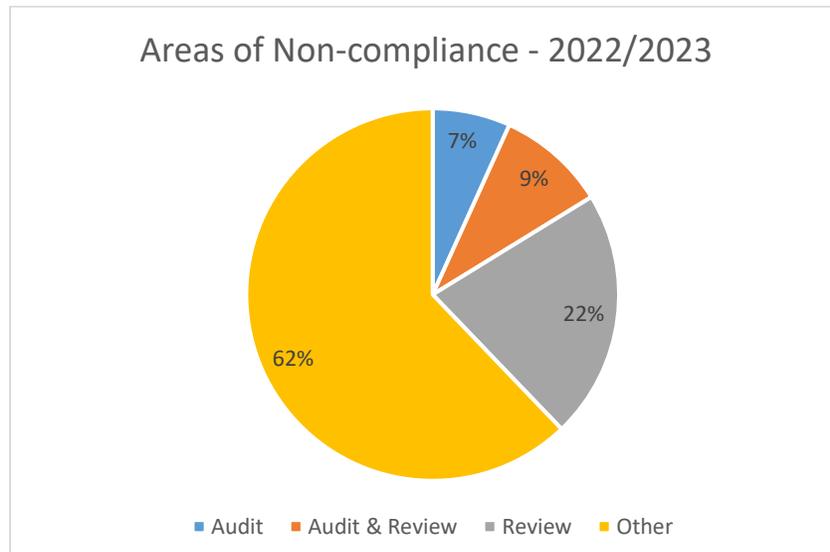
WHAT IS NEW IN PRACTICE REVIEW?

Earlier this year Practice Review was excited to launch its rebuilt Practice Review System ("PRS"). The PRS is a customized technology software and is used from the start of the practice review process through to the end of the process. The rebuilt PRS not only was updated to modern state technology, but it also now links to the firm portal, and practice review documents can be exchanged through the firm portal.

PRATICE REVIEW OBSERVATIONS

This past year, 552 practice reviews were completed, of which 75 required a follow-up practice review. The Committee directed attendance to 157 professional development courses and made 8 complaints to the CIC.

Of the 75 practice reviews requiring a follow-up practice review, the following graph depicts the areas of non-compliance.



Clearly, the highest area of non-compliance over the last year was other engagements at 62%. Encompassed in other engagements is primarily compilation engagements. It also includes non-compliance with specified auditing procedures/agreed-upon procedures engagements and the Rules of Professional Conduct.

Both firms performing only compilation engagements and firms also performing assurance engagements were found to not comply with the compilation engagement standard. The above graph shows a significant number of firms not meeting the compilation engagement standard.

In Alberta, over 50% of practice reviews performed are compilation/tax only practice reviews, and almost all firms perform compilation engagements. Effective for periods after December 14, 2021, Compilation Engagements, CSRS 4200 (the “Standard”) became effective. This Standard is much more robust and complex than the predecessor standard, which was not updated in over three decades, and this likely explains the increase in non-compliance under the Standard.

Root causes for not meeting the Standard include:

- Assuming there are no significant differences between the new and subsequent standard;
- Not staying up-to-date on professional development in the area of compilation; and
- Inadequate documentation, answers such as “yes” or “no” are generally not sufficient to demonstrate meeting the Standard.

In this report, we highlight the results and observations of practice reviews and offer suggestions for improvement in order to assist practitioners in performing high-quality compilation engagements.

KEY COMPILATION ENGAGEMENT DEFICIENCIES

Following are critical compilation engagement deficiencies identified during the practice review process. Given the seriousness of these deficiencies, the Committee requires firms' remedial action plans when making decisions on compliance with the Standard. If the firm's remedial action plan is not satisfactory to the Committee, it may consider the firm a serious risk to the public, resulting in an assessment of non-compliance with the Standard and related consequences.

Basis of Accounting Note (CSRS 4200.30)

The Standard requires that a practitioner prepare the compiled financial information, including a note that describes the basis of accounting applied. This information is essential for a user to understand the financial information prepared. It is important that each client's basis of accounting disclosure be tailored specifically to each client, and the basis of accounting is very rarely expected to be accounting standards for private enterprises ("ASPE"), accounting standards for not-for-profit organizations ("ASNFPO"), international financial reporting standards ("IFRS") or public sector accounting standards ("PSAS").

Without appropriate disclosure, the financial information is misleading. Over the past year, Practice Review saw many firms not comply with the Standard because of:

- No basis of accounting disclosure;
- Basis of accounting disclosure indicated "cash basis", and there were significant accruals; and
- Basis of accounting was disclosed as ASPE when the financial information was not in fact prepared in accordance with ASPE.

CPA Canada's Practitioner's Implementation Tool (Appendix C) includes several examples of basis of accounting disclosure and can be found at [CSRS 4200, Compilation Engagements: Guidance resources | CPA Canada](#).

Acceptance and Continuance (CSRS 4200.24)

Prior to accepting or continuing a compilation engagement, the practitioner shall make inquiries of management regarding the intended use of the compiled financial information, and obtain acknowledgement from management of the basis of accounting. This must be done prior to accepting or continuing the engagement.

Documentation of oral discussions with the client or written documentation from the client may be appropriate. Documentation of oral discussions must include with whom and when the discussions took place, as well as what the discussions were. If checklists are used to document this requirement, they must detail these discussions – a simple "Yes" response does not meet the requirements.

When the compiled financial information is intended to be used by a third party, the Standard requires a practitioner to only accept the engagement if the third party is in a position to request and obtain further information OR has agreed with management's basis of accounting. To meet this requirement, it is sufficient to inquire with management – communication with the third party is not required. As a reminder, to meet this requirement, documentation must detail these discussions and identify with whom and when the discussions took place – a simple “Yes” response does not meet the requirement.

Knowledge of the Entity (CSRS 4200.29)

Documentation of the knowledge of the entity shall include all of the following:

- The entity's business and operations;
- The entity's accounting system and accounting records; and
- The basis of accounting.

In its application material, the Standard indicates when obtaining knowledge of the entity's business and operations, the practitioner may consider:

- The nature of the entity's assets, liabilities, revenues and expenses; and
- The size and complexity of the entity and its operations.

In obtaining knowledge of the entity's accounting system and accounting records, the application material to the Standard indicates a practitioner may consider:

- How transactions are recorded, classified and summarized in the entity's financial information to determine:
 - The nature and extent of accounting adjustments that might need to be made for the compiled financial information to be prepared in accordance with the basis of accounting selected by management; and
 - Whether the information provided is not otherwise misleading; and
- The types of matters that required accounting adjustments to the entity's financial information in prior periods.

Remember that documentation must be sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand how the requirements are met.

OTHER COMPILATION ENGAGEMENT DEFICIENCIES

Following are other compilation engagement deficiencies frequently identified during the practice review process:

- Engagement letter not signed prior to engagement or had missing items (CSRS 4200.26-.27)
- No management acknowledgement of the final version of the compiled financial information (CSRS 4200.35)
- Compilation engagement report missing items (CSRS 4200.39)
- Compilation engagement report not dated correctly (CSRS 4200.40)
- No documentation of discussions with management regarding significant judgments for which practitioner assisted (CSRS 4200.41(d))

ANTICIPATED FUTURE CHALLENGE

In addition to the new compilation engagement standard, two Canadian Standards on Quality Management (“CSQM 1” and “CSQM 2”) were introduced into the CPA Canada Handbook – Assurance. These quality management standards are applicable to firms performing assurance engagements AND to firms performing related services engagements. Please be aware that compilation engagements and agreed-upon procedures engagements are considered related services engagements. Therefore, firms performing only compilation engagements and/or agreed-upon procedures engagements must adhere to these quality management standards by December 15, 2023.

Under CSQM 1, firms performing only compilation and/or agreed-upon procedures engagements (i.e., they do not perform assurance engagements) are required to design and implement their system of quality management by December 15, 2023. These firms are then required to evaluate their quality management system within one year from this date.

Over half of all registered firms with CPA Alberta perform only compilation and tax engagements and have never had a quality management requirement. This is a significant change for these firms, and developing a quality management system will require some time and effort, so you will want to start the process early to ensure things are in place by December 15, 2023.

In the situation where a firm performs assurance engagements, the new quality management standards require a firm to design and implement its system of quality management for audit and review engagements by December 15, 2022 and to evaluate its quality management systems within one year from this date. This date has already passed, so if your firm has not updated to CSQM 1 and CSQM 2, you should do so as soon as possible.

Numerous resources are available through CPA Canada at [Quality management guidance resources | CPA Canada](#) or through CPA Alberta’s Online Resource Centre at [Quality Management Standards \(cpaalberta.ca\)](#).

QUESTIONS

Should you have questions and/or require more information on any of the above, please contact Erin Wallish, CPA, CA, Registrar & Director, Practice Review at ewallish@cpaalberta.ca. General questions on other issues related to professional services should be directed to Randy Nicholls, CPA, CA, Director, Member Engagement at rnicholls@cpaalberta.ca.