

## **Rule 206 - Compliance With Professional Standards**

- .1 A member or firm engaged in the practice of public accounting shall perform professional services in accordance with generally accepted standards of practice of the profession.
  
- .2 A member who has responsibility for the preparation or approval of the general purpose financial statements of an entity shall ensure those financial statements are presented fairly in accordance with generally accepted accounting principles or such other accounting principles as may be required in the circumstances.
  
- .3 A member who, as a member of an entity's audit committee or board of directors, is required to participate in the review or approval of the entity's general purpose financial statements by such committee or board, shall carry out that responsibility with the care and diligence of a competent Chartered Accountant, enhanced by the skills and knowledge derived from the member's own career.

## **CI 206 - Compliance With Professional Standards**

### **Generally accepted accounting principles**

- 1** The term “generally accepted accounting principles” has the meaning contained in the *CICA Handbook*. Some entities will prepare financial statements in accordance with other bases of accounting, including, for example, accounting principles generally accepted in another jurisdiction or accounting principles applicable to public sector bodies. In cases such as these, the term “generally accepted accounting principles” refers to the accounting principles that are required in the particular circumstances.
  
- 2** Compliance with Rule 206 necessarily involves the exercise of professional judgment in determining whether financial statements are presented fairly in accordance with generally accepted accounting principles. In this regard, the member [or firm] should refer to the *CICA Handbook – Accounting*, and in particular *Section 1100 “Generally Accepted Accounting Principles”*, and should ensure that the principles are applied in consideration of the spirit and intent of the pronouncements of the Accounting Standards Board and other primary sources of generally accepted accounting principles.
  
- 3** Where no primary source of generally accepted accounting principles exists, the member or firm should conduct such research and consult such authoritative sources and experts as are necessary in the circumstances to ensure that the presentation is consistent with generally accepted accounting principles. Members and firms should note that Paragraph .31 of CICA Handbook Section 1100 states “ Sometimes a practice has been established that does not result from written material. The relevance of such a practice would be demonstrated by its compliance with paragraph 1100.04 and not by its use generally or within a particular industry. Extreme interpretations of a source do not constitute evidence that the criteria in paragraph 1100.04 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP of the financial position, results of operations or cash flows of the entity.”

- 4 Members and firms should document the results of research undertaken and any other considerations influencing the member's choice or acceptance of accounting policies and interpretation of generally accepted accounting principles.

### **Practice of Public Accounting**

- 5 Rule 206.1 requires a member or firm engaged in the practice of public accounting to perform professional services in accordance with generally accepted standards of practice of the profession. Generally accepted standards of practice of the profession include, but are not limited to the following:
- the standards and guidance contained in the *CICA Handbook*;
  - the governing legislation, bylaws, regulations and rules of professional conduct of the provincial institute(s) to which the member or firm belongs; and
  - requirements of relevant federal and provincial statutes.
- 6 Members engaged in the practice of public accounting should foster an environment within their firms that encourages the discussion and understanding of the application of accounting principles and other standards of practice of the profession and provides for a process to deal with professional dissent. Members should encourage others within the firm who disagree with the application of those principles and standards in a particular situation to communicate that disagreement to an individual in the firm designated for that purpose.
- 7 A member who is responsible for issuing an assurance report on an entity's financial statements and who believes that the financial statements prepared by the entity's management are not presented fairly in accordance with generally accepted accounting principles should refer to the guidance contained in the *CICA Handbook - Assurance* and
- (a) take those steps that are necessary to ensure that the financial statements are presented fairly in accordance with generally accepted accounting principles; or

- (b) issue a report with an appropriate reservation, as required by the *CICA Handbook - Assurance*; or
- (c) seek permission to resign from the engagement.

**8** A member who participates in an engagement to provide assurance on the financial statements of an entity and who believes the financial statements of the entity are not presented fairly in accordance with generally accepted accounting principles should communicate that belief to the person responsible for the assurance engagement. If, after consultation, the member continues to believe that the financial statements have not been presented fairly in accordance with generally accepted accounting principles, the member should communicate that belief to one of the firm's senior partners. Where possible, the communication should be dated and issued prior to the issuance of the financial statements and should be retained by the member for a reasonable period of time.

- 9** Before communicating with one of the firm's senior partners, the member referred to in Paragraph 8, should consider:
- (a) whether the concern results in a material misstatement of the financial statements;
  - (b) whether the member possesses sufficient expertise and knowledge of the circumstances; and
  - (c) whether the member should first discuss the matter with another person in the firm.

## **Preparation of Financial Statements**

- 10** It is management's responsibility to ensure that an entity's general-purpose financial statements are presented fairly in accordance with generally accepted accounting principles. A member who has the final responsibility for determining management's application of accounting principles in the entity's general purpose financial statements must take effective steps to ensure that the entity follows generally accepted accounting principles. In doing so, the member may obtain advice and counsel from others.
- 11** Rule 206.2 applies to those members who have responsibility for or oversight of the application of accounting principles in the preparation of an entity's general-purpose financial statements. In some cases, a member's responsibility or oversight may be limited to a component of the financial statements, in which case Rule 206.2 applies to that member in respect of the accounting principles applicable to that component of the financial statements as well as to the member who has final responsibility for determining management's application of accounting principles to the general-purpose financial statements of an entity, taken as a whole. The member who has the final responsibility for determining management's application of accounting principles to the general-purpose financial statements of an entity is responsible for the application of accounting principles in respect of each component of the financial statements and cannot claim undue reliance on the opinion of the member having responsibility for or oversight of a particular component of the financial statements.
- 12** A member who has participated in management's application of generally accepted accounting principles to all or a portion of the financial statements and who believes the general-purpose financial statements of the entity have not been presented fairly in accordance with generally accepted accounting principles should communicate that belief to the person who has final responsibility for determining management's application of accounting principles. If, after consultation, the member continues to believe the presentation is not appropriate, the member should communicate that belief to the entity's audit committee or, where there is no audit committee, the board of directors. Where

possible, the communication should be dated and issued prior to the approval of the general-purpose financial statements by the audit committee or the board, as the case may be.

The member should also communicate that belief to the person responsible for providing assurance on the financial statements. Before communicating with the entity's assurance provider, the member should consider obtaining legal advice.

**13** Before communicating with the audit committee, board of directors or the entity's assurance provider, the member referred to in Paragraph 11 should consider matters including:

- (a) whether the concern results in a material misstatement of the financial statements;
- (b) whether the member possesses sufficient expertise or knowledge of the circumstances; and
- (c) whether the member should first discuss the matter with a more senior employee of the entity.

**14** A member may prepare or approve financial statements that are not, and are not intended to be, presented in accordance with generally accepted accounting principles. Rule 206.2 does not apply when a member prepares or approves financial statements, which are

- (i) prepared solely for internal use within the entity; or
- (ii) prepared for specified users under the terms and according to the accounting principles agreed to by the preparer and the specified users.

Such financial statements are not general-purpose financial statements.

### **Service on audit committees and boards of directors**

**15** A member who sits on an entity's audit committee or board of directors is expected to use the professional skills and knowledge that a competent Chartered Accountant would possess in fulfilling the member's responsibilities on such committee or board. Competency in the Chartered Accountancy profession is not static and cannot be defined without regard to time and context. Whether a member is competent is necessarily a question of fact at a point in time.

Competency does not require a member who sits on an audit committee or board of directors to be an expert in financial accounting and reporting matters; nor does it require the member to act as a professional advisor to the audit committee or board. However, as noted below, it does require the member to identify and raise the issues that should be discussed by the audit committee or board of directors, as noted below.

A member who sits on an audit committee or board of directors should encourage the audit committee or board of directors to have substantive discussions with management and with the entity's assurance provider. Section 5751 of the *CICA Handbook*, in addition to setting out requirements for auditors, provides useful guidance on the role that members of the audit committee or board members can play in the oversight of an entity's financial reporting process.

Matters that members who sit on an audit committee or board of directors should discuss with management and the assurance provider are the issues that a competent Chartered Accountant would raise, which include, but are not limited to:

- (a) the issues involved, and related judgments made by management, in selecting accounting policies and formulating significant accounting estimates and disclosures;
- (b) any disagreement within management or between management and the assurance provider with respect to the application of generally accepted accounting principles and the resolution thereof;
- (c) the assurance provider's conclusions regarding the reasonableness of the estimates made by management and the bases therefor; and
- (d) the independence of the assurance provider.

In addition to the above, a member who sits on an entity's audit committee or board of directors should take reasonable steps to ensure the audit committee or board of directors discusses with management the overall performance of the assurance provider.

Members who are directors of entities should be familiar with the applicable requirements of regulatory bodies and other authoritative pronouncements on corporate governance matters.

**All members**

- 16** Members are also reminded of their obligations under the rules:
- (a) to bring to the attention of the Institute any information concerning an apparent breach of the rules of professional conduct or any information raising doubt as to the competence, reputation or integrity of another member (Rule 211.1); and
  - (b) not to sign or associate with any financial statement that the member knows, or should know, is false or misleading (Rule 205).