

Report on the Review of CGAO Compliance  
with the Standards of The Public Accountants  
Council regarding governance of licensed CGA  
members for the three years prior to  
authorization on June 22, 2010

Gary A Porter, FCGA, CA, LPA

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***Report of the Evaluator on the Review of whether the Certified General Accountants Association of Ontario (“CGAO”) was in compliance with the Standards of The Public Accountants Council for the Province of Ontario (“PAC”) for the three years ended June 22, 2010 (Date of Authorization)***

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**1. The Report**

I am pleased to submit my report to PAC on whether the CGAO has met the standards developed and adopted by the Council pursuant to section 19 of the *Public Accounting Act, 2004* (the Act) with respect to governance of the activities of its qualified members as licensed public accountants in Ontario (the Council Standards) in the three years prior to authorization on June 22, 2010.

Prior to becoming an ADB, the Council accepted a letter of undertaking from Doug Brooks, FCGA and CEO of CGAO regarding CGAO’s commitment to govern its licensed members in accordance with Council Standards. The Council has requested this review of CGAO’s governance of its licensees during the period ended with the date of authorization to:

- a) obtain a clean starting point for post authorization review; and
- b) seek further assurance that CGAO LPA governance processes operated appropriately during the lead up period to authorization.

**2. The Nature of the Review Process**

The extent of assurance available from this report to Council respecting CGAO compliance with the Council standards cannot be absolute. This report is intended to provide assurance to the Council that nothing has come to the attention of the Evaluator that would cause him to believe that the CGAO was not meeting the Council standards with respect to the governance of its LPAs.

This review consisted primarily of enquiry and discussion with CGAO management, and review of relevant documentation of compliance by CGAO with PAC standards.

This review did not assess the adequacy of the CGAO policies, programs and systems to support its obligations under the Act to license and govern the activities of its members who are public accountants. During the period under review, the entire assessment team was reviewing such policies, programs and systems for the purpose of making a recommendation for authorization.

The review, therefore, was limited in scope to the *compliance* by CGAO with its own programs, policies and procedures regarding post licensing governance of CGA LPAs.

The data reviewed for this report was provided by CGAO staff.

The requirements under the standards and the related review procedures are summarized in Appendix A.

**3. The Evaluator**  
**Gary Porter FCGA, CA, LPA**

- Member of the Board of Directors of Canadian Public Accountability Board
- Past President of CGA Ontario
- Past Vice President of CGA Canada
- Past member of the Discipline Committee of ICAO
- Member of the Board of Directors of the Ontario Teachers' Pension Fund 1998-2005  
Member of the Audit and Actuarial Committee and Chair of the Investment Committee
- Author of *Attribute and Dollar Unit Sampling*
- Co-author of 2009 *Handbook of International Standards on Auditing and Quality Control*
- Practised public accounting in Ontario to June 2009
- Advisor in the areas of CAS, ASPE and IFRS

**4. Evaluation Procedures**

Review documentation provided by CGAO regarding evidence of:

Practice inspection performance and results for CGA LPAs  
Compliance by LPAs with continuing professional development requirements  
Compliance with insurance requirement by LPAs  
Compliance with rules regarding continuing involvement in public accounting by LPAs  
Results of complaints and disciplinary actions resulting from allegations against CGAO licensees

The Reviewer, together with a CGAO staff member visited the offices of the CGA LPA who acts as a practice inspector of other CGA LPA practitioners. The purpose of this visit was to discuss with the Practice Inspector, the nature and extent of the inspection programs and process used by him and his comments on the extent of compliance with accounting and assurance standards by CGA LPA practitioners.

**5. Report to Council**

In forming my conclusion on the compliance of the CGAO with Public Accounting Standards I have applied relevant sections of the annual review generic guidelines developed by PAC senior staff in a process which included consultations with me. These guidelines are included as Appendices to this report.

**6. Conclusion**

Based on my review, nothing has come to my attention that causes me to believe that the CGA was not in compliance, in all material respects, with PAC Standards in its governance of CGA LPAs during the period ended with the date of authorization, June 22, 2010.

## 7. Appendices

This report contains two appendices:

- A. ADB Annual Review Procedures Checklist
- B. Letter of undertaking by Doug Brooks, FCGA, CEO of CGAO on behalf of CGAO to govern existing CGA licensees in accordance with PAC standards

Submitted to Council by Gary A. Porter, FCGA, CA, LPA

Evaluator

December 1, 2010

(signed)

Gary Porter

### POSTSCRIPT

As requested by the Council, I have also made enquiries of the CGAO with respect to its practices regarding privileged documents held by its members. Based upon the response received from the CGAO in a letter dated January 12, 2011, and relying on the work done by the Council Evaluators in the process leading to the CGAO becoming an authorized designated body on June 22, 2010, I am satisfied that the CGAO is in substantial compliance with the requirements of the Statutory Powers Procedure Act, which is included in the Council Standards, regarding the handling of privileged documents.

January 19, 2011

(signed)

Gary Porter

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### **List of abbreviations:**

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- ADB – Authorized Designated Body
- ASPE – Accounting Standards for Private Enterprises
- CAS - Canadian Auditing Standards
- CGAO – Certified General Accountants Association of Ontario
- CPAB – Canadian Public Accountability Board
- IFRS - International Financial Reporting Standards
- LPA – Licensed Public Accountant
- PAC – The Public Accountants Council for the Province of Ontario
- Council Std – A standard of the PAC
- Council Hdbk – Pt. I of the *Public Accountants Handbook* (PAC competency map)

## I. Issuance of Public Accounting Licences

The objective for these supplemental review procedures is to assess whether the DB has established appropriate policies and procedures designed to provide reasonable assurance that are in compliance with the Standards of the Council.

### Standard Description

1. Obtain a description of the quality control features and reporting protocol that are employed to ensure that the objectives for the Issuance of Public Accounting Licences are met

### Evaluator's Response

CGAO was not authorized during the reporting period and accordingly no licences were issued.

### Important Notice-Renewal Requirements

This is the reviewer's description of the CGAO licence renewal requirements

#### **Renewal Of A Public Accounting Licence**

In order to be eligible for an automatic renewal of a public accounting licence the licensee must meet requirements set out in 1, 2 and 3 below:

NOTE: During the pre authorization period, CGA licensees were granted extensions by the Minister. The last of these expires on December 31, 2011 These extensions were granted without restriction. CGAO nevertheless required LPAs to meet the applicable standards as set out hereunder.

#### **1. Practice inspection requirement**

Within each three-year period, the practicing office must have been the subject of a practice inspection resulting in the office having been found to adhere to professional standards contained within the *CICA Handbook* and other professional standards established by the Association.

#### **2. Mandatory continuing professional development requirement**

The licensee must have complied with the mandatory Continuing Professional Development requirement of 120 hours in the last three-year CPD reporting period, 60 hours of which are verifiable hours in accordance with Rule 302 of the Code of Ethical Principals.

#### **3. Minimum eligible hours in public accounting and other designated services**

Within the five-year period immediately prior to the date of application, the licensee must have obtained at least 2,500 eligible hours obtained in a recognized capacity with a public accounting practice. At least 1,250 eligible hours must be in public accounting services. The remainder of the eligible hours may be additional public accounting service hours or other specified designated services hours up to 1,250 hours.

#### **Each licensee is required**

- to track and keep a record of the number of hours obtained in providing public accounting services and designated services for each of the last five years ending April 30, and to complete a declaration as part of the annual licence renewal application indicating whether or not the licensee has obtained within the immediate past five years a minimum of 2,500 eligible hours that includes

at least 1,250 eligible hours in public accounting services.

### **MEMBERS WHO HAVE NOT FULFILLED THE MINIMUM ELIGIBLE HOURS REQUIREMENT**

The CGAO Public Accounting Licensing Board has authority to exercise discretion in determining whether or not to renew a licence where a licensee participates in providing public accounting services in a recognized capacity and has fulfilled the requirements of 1 and 2 above but has not fulfilled the minimum 2,500 eligible hours requirement or the minimum 1,250 public accounting services hours as set out in 3 above. The licensee must satisfy the Board that he or she otherwise has the required capabilities, competence and current skills to provide public accounting services.

Declarations of compliance were reviewed for all CGAO LPAs and found to be in order.

**Compliance Y/N YES**

Standard Description	Evaluators Response
<p>2. Document the steps taken to demonstrate that the quality control features have been implemented</p>	<p>During this period, renewal (or more properly, the extension) of licences of CGA LPAs was performed by order in council initiated by the Ministry of the Attorney General. While CGAO did not itself, renew licences, it did, as documented hereunder, ensure that the standards set by PAC for such renewal were complied with by CGA LPAs. Evidence of the implementation of such controls is included in the detailed review of each of the components listed immediately preceding.</p> <p><b>Compliance Y/N YES</b></p>
<p>3. Assess whether there are adequate resources for effective monitoring of the DB policies and bylaws relating to issuance of Public Accounting Licences</p>	<p>As indicated in the following detailed sections, resources appear adequate</p> <p><b>Compliance Y/N YES</b></p>
<p>4. Perform an examination of a representative number of files, transactions or events to demonstrate whether the policies of the ADB have operated effectively throughout the previous 12 months</p>	<p>See Number 2</p> <p><b>Compliance Y/N YES</b></p>
<p>5. Identify any exceptions to policies that occurred during the period and how these were dealt with</p>	<p>None</p> <p><b>Compliance Y/N YES</b></p>
<p>6. Review the follow up to issues that arose from the DB process such as appeals, sanctions and discipline to ensure that the required follow up was completed</p>	<p>None</p>

7. Reconcile the activities arising from this process during the period to the annual supplementary review	N/A
8. Discuss major changes in standards or trends that may impact future policies and how these are being dealt with	<p>Discussed with CGAO staff what training was being offered for conversions to IFRS, GAAP for Private Enterprises and CAS. The Professional Development Calendar shows extensive offerings in these areas and staff report attendance is high. However, DB assessment of the sufficiency and appropriateness of training on new standards is not practical. This results from the differing nature of the client bases of individual practices and the extent to which various new standards apply.</p> <p><b>Compliance Y/N YES</b></p>
9. Note any observations and recommendations arising from the completion of these procedures	None
10. Review these observations and recommendations with the appropriate executives from the DB	<p>Date of Review: December 1, 2010  Sarosh Contractor, CGA  Comments: None</p>

## II. Practice Inspection

The objective for these review procedures is to assess whether the DB policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to various aspects of public accounting standards are operating effectively and complied with in practice and that they are in compliance with the Standards of the Council.

### Standard Description

1. Obtain a description of the quality control features and reporting protocol that are employed to ensure that the objectives for Practice Inspection are met

### Evaluators Response

Under the CGAO Act 2010, section 42 and 43, CGAO policy requires that:

- a) A practice inspection is to be conducted within twelve months of inception of the practice;
- b) Each practice be inspected at least once in each 3 year cycle;
- c) Practice Inspection involves the testing of quality control procedures;
- d) An inspection involves (as applicable) the review of current auditing and review engagement files and current files for compilation services. The number of current engagement files to be reviewed depends on the degree of reliance, if any, to be placed on quality controls and the size of the practicing unit.
- e) If a Practice Inspector identifies deficiencies which, either by their number or nature constitute significant weaknesses in the conduct of public accounting services by the practitioner, these are specifically identified to the practitioner and, a follow up inspection will be scheduled six months to twelve months thereafter. If the practitioner has not demonstrated sufficient, appropriate improvement, the PI will recommend referral to the Disciplinary process.

CGAO contracts with two part-time inspectors. There were 9 active licensees subject to this review and there are 5 CGA LPAs with independent firms to be inspected. All 5 were inspected within the past three years. All inspections files were reviewed in detail and were prepared in accordance with CGAO practice inspection standards. The files of four practitioners were determined to be adequate and one was not. An inspection twelve months later determined that the files of this licensee were then adequate owing to correction of deficiencies identified in the earlier inspection. **Compliance Y/N YES**

### Standard Description

2. Document the steps taken to demonstrate that the quality control features have been implemented

### Evaluators Response

Reviewed files and verified that the documents necessary to fulfill the CGAO practice inspection requirements had been completed and signed and dated by the inspector and the practitioner, including review of deficiencies with the practitioner

**Compliance Y/N YES**

<p>3. Assess whether there are adequate resources for effective monitoring of the ADB policies and bylaws relating to Practice Inspection</p>	<p>Two contracted part time inspectors is adequate for five inspections over 3 years.</p> <p><b>Compliance Y/N YES</b></p>
<p>4. Perform an examination of a representative number of Practice Inspection files to demonstrate whether the policies of the ADB have operated effectively throughout the previous 12 months</p>	<p>See response to item 2</p> <p><b>Compliance Y/N YES</b></p>
<p>5. Identify any exceptions to policies that occurred during the period and how these were dealt with</p>	<p>None</p> <p><b>Compliance Y/N YES</b></p>
<p>6. Review the follow up to issues that arose from the DB process such as discipline, sanctions or prescribed CPD to ensure that the required follow up was completed</p>	<p>No such issues</p>
<p>7. Discuss major changes in standards or trends that may impact future policies and how these are being dealt with</p>	<p>Inspection findings over the past two or three years appear to indicate that the increasing shift to risk based auditing is still unevenly understood and implemented by firms (especially smaller firms).</p> <p>Key weaknesses for audits reported by the practice inspector during our discussion include:</p> <ul style="list-style-type: none"> <li>• Insufficiently documented work to demonstrate an adequate understanding of the audited entity and its environment;</li> <li>• Insufficient documentation indicating an understanding of the control environment and the entity’s risk assessment process;</li> <li>• Assessment of the risks of material misstatement and clear linkages between such an assessment and audit procedures selected and performed to respond to these assessed risks;</li> <li>• Documented consideration of the risk of fraud.</li> <li>• Insufficient documentation of audit procedures performed, evidence found and conclusions drawn;</li> <li>• Insufficient documentation of communication with board of directors/audit committee.</li> </ul> <p>For review engagements, the principal weaknesses revolve around insufficiently documented analytical work, and enquiries of management, and either inadequate or non-existent consideration of</p>

	<p>independence matters. Reports by practice inspection units of different public accountants' organizations at least across North America contain similar results for both audit and review files.</p> <p><b>Compliance Y/N YES</b></p>
<p><b>8.</b> Note any observations and recommendations arising from the completion of these procedures</p>	<p>None</p>
<p><b>9.</b> Review these observations and recommendations with the appropriate executives from the ADB</p>	<p>Date of Review: December 1, 2010  Sarosh Contractor, CGA  Comments: None</p>

### III. Continuing Professional Development

The objective for these review procedures is to assess whether the DB policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to various aspects of public accounting standards are operating effectively and complied with in practice and that they are in compliance with the Standards of the Council.

#### Standard Description

1. Obtain a description of the quality control features and reporting protocol that are employed to ensure that the objectives for CPD are met

#### Evaluators Response

The CGAO prescribes that all licensees must complete a minimum amount of continuing professional development consisting of at least:

- a. 40 hours annually; and
- b. 120 hours in every three-year period

**A key control** is that the CGAO requires each licensee to fulfill and, upon request, to report on compliance with the minimum annual and periodic continuing professional development requirements prescribed above. Each year each CGA including all LPA members must certify they have obtained the minimum requirements.

The CGAO specifies the adverse consequences arising from a licensee's failure to comply with the continuing professional development requirements or failure to file annually or upon the request of the designated body a report of compliance with the requirements. Such consequences include:

- a. referral to the disciplinary process of the designated body and,
- b. where circumstances warrant, suspension or revocation of the licence to practise public accounting.

At least 50 percent of the annual and periodic continuing professional development requirements must be verifiable, meaning that the learning can be objectively verified by a competent source.

The key control is that CPD logs must be available to the Association based on random selection of a sample each year. Further, members selected in the sample must be able to support the 50% verifiable component.

**Compliance Y/N** YES

#### Standard Description

2. Document the steps taken to demonstrate that the quality control features have been implemented.

#### Evaluators Response

Reviewed declarations submitted for all licensees for 2009.

All licensees submitted declarations of compliance

No licensee was included in the sample to be reviewed in detail for this year. This is reasonable

	<p>since there are only 9 licensees of 16,000 members who must comply.</p> <p><b>Compliance Y/N YES</b></p>
<p>3. Assess whether there are adequate resources for effective monitoring of the DB policies and bylaws relating to CPD</p>	<p>Staffing is reviewed as part of the operating budget process and where required, qualifications are specified in job descriptions for new positions.</p> <p><b>Compliance Y/N YES</b></p>
<p>4. Perform an examination of a representative number of files, transactions or events to demonstrate whether the policies of the ADB have operated effectively throughout the previous 12 months</p>	<p>See response to Item 2</p> <p><b>Compliance Y/N YES</b></p>
<p>5. Identify any exceptions to policies that occurred during the period and how these were dealt with</p>	<p>None</p>
<p>6. Review the follow up to issues that arose from the ADB process such as appeals, sanctions and discipline to ensure that the required follow up was completed</p>	<p>Not Required</p>
<p>7. Discuss major changes in standards or trends that may impact future policies and how these are being dealt with</p>	<p><b>Compliance Y/N YES</b></p>
<p>8. Note any observations and recommendations arising from the completion of these supplementary procedures</p>	<p><b>Compliance Y/N YES</b></p> <p>None</p>
<p>9. Review these observations and recommendations with the appropriate executives from the ADB</p>	<p>Date of Review: December 1, 2010 Sarosh Contractor, CGA Comments: None</p>

#### IV. Discipline

The objective for these review procedures is to assess whether the DB policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to various aspects of public accounting standards are operating effectively and complied with in practice and that they are in compliance with the Standards of the Council.

#### Standard Description

1. Obtain a description of the quality control features and reporting protocol that are employed to ensure that the objectives for Discipline are met

#### ICAO Response

***Discipline Committee – Processes and Procedures* PAC Standard 13(1)  
CGA Act 2010 sections 32 through 41 inclusive**

#### Evaluator Response

**Compliance Y/N YES**

There were no discipline cases in process regarding licensees, therefore the operation of this system was not required to be reviewed

(CGAO Letterhead)

November 30, 2009

Ms. Glorianne Stromberg  
 Chair, Public Accountants Council for the Province of Ontario  
 1200 Bay Street, Suite 901  
 Toronto, Ontario  
 M5R 2A5

Dear Ms. Stromberg:

CGA Ontario hereby undertakes to regularly monitor and inspect the public accounting practices of the following CGA Ontario members who hold public accounting licences and whose licences have been extended by Regulation made by the Lieutenant Governor in Council under the *Public Accounting Act, 2004* until December 31, 2011:

Jang Engineer, FCGA, LPA  
 48 Village Center Pl.  
 Mississauga, ON L4Z 1V9

Lloyd Fields, CGA, LPA  
 339 Dora Dr  
 Wallaceburg, ON N8A 3J9

John E. Logan, FCGA  
 201-12220 Stony Plain  
 Edmonton, AB T5N 3Y4

Rick Forbes, CGA, LPA  
 3398 Laurie Ave  
 Vineland Station, ON L0R 2E0

Lance Rieger, CGA, LPA  
 100-40 Centre Sq Centre St  
 Chatham, ON N7M 5W3

Fred Whitley, FCGA, LPA  
 34 Angela Ave  
 Hamilton, ON L9C 1L2

Jane Bennie, CGA, LPA  
 17 Butterwick St.  
 PO Box 444  
 Munster Hamlet, ON K0A 3P0

Elaine Pantel, CGA, LPA  
 33 Bannatyne Drive  
 Toronto, ON M2L 2N8

Darin Cleary, CGA, LPA  
 17 Winter Way  
 Brantford, ON N3T 6E6

Jonathan Ragnauth, CGA, LPA  
 1 Selhurst Drive  
 Brampton, ON L6P 1A3

Mr. Paul Walker, CGA, LPA  
 20688 56 Ave  
 Langley BC V3A 3Z1

The Association further undertakes to monitor and inspect the practice of John Logan, FCGA, who holds a permit to practice as a non-resident without a licence referred to in subsection 44 (2) of the Public Accounting Act, 2004 and whose permit is being extended by Regulation made by the Lieutenant Governor in Council under the *Public Accounting Act, 2004* until December 31, 2011.

Licensed members' practices will be inspected during a regular three year cycle by a licensed public accountant to ensure that members and their practices comply with the Public Accountants Council Standards adopted on June 20, 2006.

Yours truly,



Doug Brooks, FCGA  
 Chief Executive Officer

c.c. Keith Bowman; Bernie Keim, CGA; Ted Wigdor