



The Society of Professional Accountants of Canada

La Société des Comptables Professionnels du Canada

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Registered Professional Accountant Comptable Professionnel Enregistré

THE SOCIETY ADVOCATES & PROPOSES TO LIMIT THE SCOPE OF LICENSING TO THE AUDIT FUNCTION

To clarify the Society of Professional Accountants of Canada's (SPAC) position regarding the significant categories of services offered by practicing accountants to the public, SPAC has set out hereunder details which in our opinion would further clarify and identify the work involved to satisfy the requirements of each category of service and the accepted standards to which the three types of reports must conform.

The three reports are as follows:

1. AUDIT ENGAGEMENT

The objective of an audit engagement is to enable an independent public accountant to render an opinion on the fairness of the client's financial statements. The opinion is given in the form of a standard written report which should consist of three paragraphs as set out below. Paragraph (1) states the name of the company, identifies the financial statements, and distinguishes between the responsibilities of management and the auditor. Paragraph (2) describes the scope and level of assurance. Paragraph (3) expresses an opinion. The following standard auditor's report precedes the financial statements:

AUDITOR'S REPORT

To the Shareholders of (name of Corporation):

I have audited the balance sheet of (name of Corporation) as at (date) and the statement of income; retained earnings and changes in financial positions for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I have conducted the audit in accordance with generally accepted auditing standards. Those standards require the I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An

audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at (date) and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

City
Date

(signed) _____
Professional Accountant

Audited financial statements are an acceptable basis used by many business corporations to report to shareholders, to bankers, to creditors and to the government. Both federal and provincial legislation in Canada generally requires a limited company to prepare annual financial statement for audit by qualified licensed independent auditors. Some corporations may be exempted from the audit requirement if all shareholders agree, in writing, to waive the appointment of an auditor or auditors.

The financial statements subject to audit are the responsibility of the Corporation's management. The auditor's responsibility is to express an opinion on those financial statements. The auditor must plan the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Through the study and evaluation of the corporation's system of internal controls, and by inspection of documents, observation of assets, making of enquiries within the corporation and outside the Corporation, and by other generally accepted auditing procedures, the auditor will gather the evidence necessary to determine whether the financial statements present a fair picture of the corporation's financial position and its activities during the period being audited.

An auditor may disagree with the Corporation on the accuracy or fairness of the financial information presented and will qualify the audit report. Departures from generally accepted accounting principles are primarily the reason for disagreement. The auditor will then state the nature of such disagreement and explain the effect on the results of operations or the financial position of the company in the audit report.

2. REVIEW ENGAGEMENT

The objective of a review engagement is to prepare and review financial statements to ascertain

whether they are plausible, that is, worthy of belief. After completing the review of the financial statements, the accountant is satisfied that the financial statements are not misleading, the following report will precede the financial statements:

REVIEW ENGAGEMENT REPORT

To (name of person that signed the engagement letter):

I have reviewed the balance sheet of (name of Corporation) as at (date) and the statements of income, retained earnings and changes in financial position for the year then ended. My review was made in accordance with generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures, and discussion related to information supplied to me by the corporation.

A review does not constitute an audit and consequently I do not express an audit opinion on these financial statements.

Based on my review, nothing has come to my attention that causes me to believe that these financial statements are not, in all material respects, in accordance with generally accepted accounting principles.

City
Date

(signed) _____
Professional Accountant

If an audit is not required or the shareholders have waived the appointment of an auditor, financial statements may be prepared on a review basis. Reviews provide limited assurance that the financial information conforms to generally accepted accounting principles.

In performing a review engagement, the accountant would acquire a sufficient understanding of the client's business to make appropriate enquiry and assessment of the information obtained with the limited objective of determining the plausibility of the information on which the report was based. The review should entail enquiries, analytical procedures and discussion with the responsible officials of the client.

In essence, a review engagement provides little or no assurance. This degree of assurance is less than that of an audit and is expressed as either:

- (a) The negative assurance that nothing has come to the accountant's attention that would indicate the financial information is not presented in accordance with generally accepted accounting principles; or,
- (b) A reservation together with appropriate disclosure and details of the reservation.

3. COMPILATION ENGAGEMENTS

The objective of a compilation engagement is to compile unaudited financial information into financial statements, schedules or reports based on information supplied by the client.

The following 'Notice To Reader' appears on each page or prefaces the financial information and warns of the limited involvement of the accountant:

NOTICE TO READER

I have compiled the balance sheet of (name of Business) as at (date) and the statements of income, retained earnings and changes in financial position for the (period) then ended from information provided by management (or the proprietor). I have not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

City
Date

(signed) _____
Professional Accountant

If the above communication is not stamped or printed on each page of the financial statements, then each page of the financial information will identify the nature of the engagement. By carrying the following reference: "Unaudited - See Notice to Reader".

A compilation engagement is appropriate only where the client and other users do not need financial information that conforms in all respects to generally accepted accounting principles, audit or review assurance is not required, and the client understands that the statements may not be appropriate for general purpose use.

Uninformed readers could be misled unless they are aware of the possible limitations of the statements and of the accountant's very limited involvement.

A compilation may be applicable where financial statements are prepared for the exclusive use of the corporation's internal management or for income tax and other tax purposes.

Professional Accountants must not be associated with financial statements which in their opinion, are incorrect or misleading.

Under current legislation unlicensed practitioners may perform any or all of the tasks required to satisfy the three types of engagements, but licensed accountants are only permitted to issue the three reports listed above. Unlike the other two reports, the audit report assures the reader that financial statements of a business are presented fairly, in all material respects of the financial position of the business as at a certain date.

The review and compilation reports do not give the high degree of assurance provided by the auditor's report. In fact, they both specifically warn the reader or user as follows:

1. Review Engagement Report

“A review does not constitute an audit and consequently I do not express an audit opinion on these financial statements.”

2. Notice to Reader

“I have not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.”

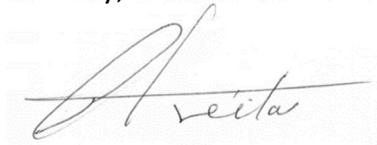
The above reports will fully satisfy the requirements of small business concerns and the Society is respectfully recommending relaxation in legislation to permit unlicensed accountants to issue the two reports. To reinforce public protection, the Society has arranged professional liability insurance for members in public practice to cover all services including opinions and offering advice, coming within the scope of professional activities described in the declarations of the insurance contract and performed in accordance with legislation regulating the practice of such activities.

ADVOCACY & PROPOSAL

The Society advocates and proposes to limit the scope of licensing in Canada, which must be managed by the **Federal Government**, rather than Provincial and Territorial independent bodies.

On behalf of the Society of Professional Accountants of Canada.

Sincerely,

A handwritten signature in black ink, appearing to read "Ed Freitas", is written over a light grey rectangular background.

Edmund C. de Freitas, FAIA, FCBA, APA, RPA, CFSA, CFE,
President and CEO

Dated: May 31, 2016