

Accounting Policy and Financial Reporting Branch, OPCD

Issue:

What, if any, notification is required in relation to work for which OPCD has engaged an external party to provide advisory services related to complex accounting matters. In considering this matter, consider both stakeholding between OPCD (TBS) and the OAG as well as between the external firms have been engaged by OPCD (TBS) and the OAG, taking into account Rules 305 and 306 of CPA Ontario's Rules of Professional Conduct.

Background:

OPCD has, as a matter of practice, occasionally engaged external accounting advisors in situations involving complex accounting matters. Examples include:

- Project Oxygen (DT)
- Project Earth (EY)
- Metrolinx
- Ring of Fire
- GBE Accounting, including control analysis for H1, GBE consolidation (DT)
- Pension Accounting (EY/PwC)
- Cap and Trade Accounting (PwC)

The tendering process for such engagements has complied with the Province's procurement policies. The following is a summary of communication requirements under applicable Canadian standards:

Requirements applicable to OPCD (TBS):

There are no existing requirements under CPA Ontario's standards which would require OPCD (TBS), as preparer of the consolidated financial statements of the Province, to advise the Auditor General that OPCD has engaged an external advisor to provide advice regarding complex accounting, control or audit related matters.

Historically, the practice has been that OPCD accepts responsibility, as preparer of the Province's Public Accounts, for any decisions impacting accounting policies and the fairness of reporting of the Province's consolidated financial statements. This responsibility continues even though OPCD may on occasion seek supplementary advice and guidance from an external advisor.

In recognition of the fact that accounting analysis and advice is often required before final decisions are made with respect to factors that could impact the recommended accounting treatment, it has been the practice to share proposed accounting treatment and seek OAG input/feedback at a stage of deliberations in which the accounting analysis can be considered as reflecting the 'substance of the transaction'. In addition, OPCD's engagement with the OAG

is conditional upon receiving concurrence from the lead ministry/authority to engage with the OAG for purposes of seeking feedback.

Requirements applicable to External Advisors:

Under the Professional Code of Conduct of CPA Ontario (Rules 305 and 306), the responsibility to notify the incumbent auditor (e.g. the AG as the auditor of the consolidated financial statements of the Province of Ontario) is placed on the firm completing the assignment and is required when the firm is engaged "*in the practice of public accounting or providing a professional service not inconsistent therewith (Rule 305.1).*" Extracts of Rules 305 and 306 are attached as Appendix A.

The guidance on Rule 305 is clear that providing an accounting opinion is within the scope of the services noted above. When Deloitte LLP was engaged to provide an accounting opinion related to the accounting for the province's pension assets in relation to the 2015-16 Public Accounts, the AG was contacted in accordance with the above-noted standards.

Except for the above-noted exception, the province has not engaged an external public accounting firm to provide an **accounting opinion**.

The remaining question is whether any of the other type of services provided to OPCD by external advisors is within the scope of *practice of public accounting or providing a professional service not inconsistent therewith.*"

The practice of public accounting is defined in the CPA Ontario bylaws as follows:

1.1.26 "practice of public accounting" means the provision of the services described in s. 2 of the Public Accounting Act, 2004, excluding any exceptions to services listed in s. 3 of that Act

The sections noted above in the Public Accounting Act, 2004, are as follows:

2 (1) For the purposes of this Act and subject to any limitations that are prescribed, the practice of public accounting means providing, on a basis that is independent of the person for whom the services are being provided, either of the following services:

1. Assurance engagements, including an audit or a review engagement, conducted with respect to the correctness, fairness, completeness or reasonableness of a financial statement or any part of a financial statement or any statement attached to a financial statement, if it can reasonably be expected that the services will be relied upon or used by a third party.
2. Subject to subsection (3), compilation services, if it can reasonably be expected that all or any portion of the compilations or associated materials prepared by the person providing the services will be relied upon or used by a third party. 2004, c. 8, s. 2 (1).

Inclusion of opinion in assurance engagements

(2) Assurance engagements described in paragraph 1 of subsection (1) may or may not include the rendering of an opinion or other statement by the person who is providing the services. 2004, c. 8, s. 2 (2).

Exception to public accounting

(3) If the compilations or associated materials prepared by the person in providing compilation services that otherwise fall within paragraph 2 of subsection (1) contain a notice in the prescribed form that provides that any assurance given by the person is limited to the accuracy of the computations required in order to complete the compilation, the provision of the compilation services does not constitute public accounting for the purposes of this Act. 2004, c. 8, s. 2 (3).

The above-noted standards, with the exception of the engagement with Deloitte LLP in relation to pension accounting for the 2015-16 Public Accounts, are not applicable as none of the firms engaged by OPCD to provide complex accounting services were engaged to provide assurance, or to express an independent opinion on our accounting practices or reports. As such, it would be OPCD's interpretation that the above standards are not applicable. Rather, the purpose of OPCD engaging external experts is to supplement our internal expertise and to inform government's decisions on appropriate accounting policies, fiscal policy decisions and understanding of audit assurance requirements for Public Accounts audit planning purposes.

Appendix A

305 Communication of special engagements to incumbent

Rules

305.1 A member or firm engaged in the practice of public accounting shall, before commencing any engagement for a client for which another member or firm is the duly appointed auditor or accountant, first notify such auditor or accountant of the engagement, unless the client makes an unsolicited request, evidenced in writing, that such notification not be given.

305.2 Rule 305.1 applies only where the services to be provided under the terms of the engagement are included in the practice of public accounting.

Guidance

1. It is important for auditors and accountants to be fully informed about all matters related to their clients' affairs. When a second member or firm is asked by a client of another member or firm to undertake a special engagement, the circumstances of that special engagement may be relevant to the work of the first member or firm in relation to an assurance or compilation engagement. In some cases, the auditor or accountant may have information that is relevant to the performance of the special engagement. For example, the client may be seeking a "second opinion" with respect to a matter that is the subject of a dispute between the client and its auditor or accountant. The client's interests are most likely to be best served when there is full co-operation among professional service providers. Additionally, full co-operation ensures that all of the members or firms who are providing services to the client have the appropriate information to exercise appropriate due care in providing such services.
2. When a client makes a request that the potential service provider not provide notification to the auditor or accountant, the potential service provider should inform the potential client of the impact of such a request on the assurance or compilation engagement. In addition, the potential service provider should carefully consider whether the circumstances may be such that the special engagement should be declined.

306 Responsibilities owed to an incumbent

Rule

306.1 Responsibilities on accepting engagements

A member or firm accepting an engagement, whether by referral or otherwise, from a client of a member or firm having a continuing professional relationship with that client shall not take any action which would tend to impair the position of the other member or firm in the ongoing work with the client.

306.2 Responsibilities on referred engagements

A member or firm receiving an engagement for services by referral from another member or firm shall not provide or offer to provide any additional services to the referred client without the agreement of the referring member or firm. The interest of the client being of overriding concern, the referring member or firm shall not unreasonably withhold such agreement.

Guidance

The client's overall interests are best served when professional service providers are aware of any relevant services that may be provided to the client by another service provider. Such knowledge is of particular importance to providers of assurance services to develop sufficient knowledge of the client. However, such knowledge also assists other service providers to avoid duplicating services and to plan and co-ordinate services where necessary to better serve the client.