

Appendix D – Proposed National Standards: A Principled Approach

Increasing globalization and increasing integration of the Canadian economy with that of the United States of America, recent changes in public accounting legislation in some provinces and the general interest in higher accountability that now prevails are all factors that create an opportunity to develop and promote a principle-based model to achieve consistent, high minimum standards for the provision of public accounting services throughout Canada. With such a model, international investors and regulators will be able to judge Canada's ability to maintain confidence in business and capital markets in accordance with Canadian standards, rather than by region or province. As well, a principle-based model of uniform regulation will enable Canada to demonstrate that there can be minimum, high standards for public accounting qualification and governance standards, within multiple jurisdiction legal frameworks, that provide access to public accounting by a number of different accounting designations.

Fundamental Principles

Public accounting qualification and governance standards must be based on fundamental principles:

- Protection of the public.
- High minimum standards that establish and maintain competencies and professional standards.
- A level-playing field for all those who are permitted to practice public accounting.
- Uniformity as to what activities are governed by such standards.

The cornerstone of the uniform public accounting qualification and governance standards must be the public interest. The requirements and processes established to govern public accounting must be predicated on high minimum standards that protect the public. These high minimum standards must be sufficient to engender the confidence of the parties that will rely on them – investors, regulators and financial institutions, among others. They must be recognized internationally and in particular by the public accounting bodies of Canada's major trading partners, especially in the United States, as providing the competencies necessary to practice public accounting. They also must ensure that all those who seek to be authorized to practice have fulfilled similar, rigorous competency requirements and are subject to uniform, mandatory standards of practice and regulatory processes.

Accordingly, the required high minimum standards must begin with entry-level qualification in education, examination and experience that those who seek to be permitted to practice public accounting must fulfill. But they also must involve standards of practice, measures of standards adherence and measures of standards enforcement to which all those who are permitted to practice public accounting are subject.

Standards of qualification

Those who seek to be authorized to practice public accounting should:

- Satisfactorily complete similar, rigorous education requirements that meet the highest international standards, and in particular the standards established by Canada's major trading partner, the United States, and the other G7 countries. These would include a degree from an accredited Canadian university or a comparable university in another country, or the equivalent. They must also include prescribed university-degree credit courses in accounting, assurance and related subjects and a post-baccalaureate professional program emphasizing both technical skills and professional competencies specifically required for the performance of assurance engagements.

- Successfully complete a period of structured and monitored prescribed practical experience in public accounting under the supervision of authorized public accountants.
- Pass rigorous examinations that are both integrative and comprehensive in the testing of all the competencies necessary to practice public accounting.
- The standards for education, experience and examinations should meet or exceed international standards and be sufficient to earn reciprocity with the public accounting bodies of Canada's major trading partners.

Standards adherence

All those who are authorized or permitted to practice public accounting should be subject to:

- Mandatory standards of practice: generally accepted standards of practice of the public accounting profession including the generally accepted accounting principles and generally accepted assurance standards that are set out in the *CICA Handbook – Accounting and the CICA Handbook – Assurance of the Canadian Institute of Chartered Accountants*.
- Rules of professional conduct which specifically prescribe the standards of conduct to which members practising public accounting must comply, and which are:
 - Founded on the principles of protection of the public (such as the requirement of independence, conflict of interest, confidentiality)
 - Intended to ensure protection of the reputation of all public accountants
 - Harmonized with the rules of other accounting bodies recognized under the applicable statute(s) as being permitted to authorize their members to practice public accounting
 - In compliance with international standards.
- Uniform, mandatory continuing professional development requirements specific to members practicing public accounting that involve minimum annual and other periodic hour requirements and reporting provisions.
- Mandatory and cyclical practice inspection within a uniform system that includes on-site inspections to ensure maintenance of an appropriate level of professional standards, through review of current accounting and auditing engagement files, and compliance testing of quality control procedures. The system must include the ability to compel the production of working paper files, books, documents or other materials and the power to make complaints of professional misconduct where warranted.
- Mandatory quality control requirements that comply with international standards.
- Mandatory and stringent professional liability insurance requirements.

Standards enforcement

All those who are authorized or permitted to practice public accounting should be subject to:

- Rigorous complaints investigation and discipline powers and procedures based on sanctioning principles of specific deterrence, general deterrence and rehabilitation, and which have public representative involvement at all stages.
- Sanctions/discipline that are the result of thorough practice inspection.
- e-entry requirements if not active in the authorized activities for a prescribed period of time.

Legislative principles

1. Authorization to practice as public accountants should be mandatory under legislation.
2. Authorized activities should be audit, review and compilation services.
3. The legislation should specifically designate the bodies whose members may qualify to practice public accounting and prohibit the practice of public accounting by any other individuals.
4. The legislation should establish the framework for establishing and maintaining high minimum standards for qualification, admission and ongoing regulation (quality control requirements, practice inspection, discipline, etc.).
5. The legislation should establish a mechanism or process that is independent of any of the designated bodies to assess each designated body to determine whether it meets the high minimum standards in respect of both content and rigour, and has sufficient governance structures and regulatory processes, in order to be granted the right to authorize its members to practice public accounting.
6. Every authorized public accountant must be a member of a designated body and be subject to regulation by that body.
7. Members of more than one designated body must specify the body to which they will be subject for regulatory purposes.
8. Removal by one designated body of authorization to practice as public accountant must preclude being granted authorization to practice public accounting by another body.

Conclusion

The establishment of nationally consistent public accounting qualification and governance standards as described in the foregoing would be a “win” for all stakeholders, resulting in:

- streamlined, more efficient and effective governance of public accounting in the public interest
- an enhanced climate for international investment
- consistency with U.S. regulation, with particular reference to the requirements of the *Sarbanes-Oxley Act* and evolving SEC requirements
- improved domestic labour mobility
- nationally higher practice standards for other accounting designations, resulting in a high level playing field for all practitioners