Chartered Professional Accountants of Ontario
69 Bloor Street East Toronto ON M4W 1B3
T. 416.962.1841 F. 416.962.8900 Toll Free 1.800.387.0735
cpaontario.ca

PRACTICE ADVISORY

(Originally published in Spring 2011 CheckMark – updated November 2018)

AGM Roles and Rules for Public Accountants

CPA Ontario's Practice Advisory department often receives calls from disgruntled shareholders who want to find out if (and how) they can file a complaint against their public accountant, as they believe that their accountant has not properly responded to questions directed to them. While this occurs throughout the year, it more often happens at the Annual General Meeting (AGM). As the season approaches, this article reminds public accountants of their role at AGMs. For convenience, the term ‘Accountant’ will be used to refer to public accountants providing public accounting services, such as audit, review or compilation engagements.

Keep Accountant and management roles separate

The approval of financial statements and appointment of the Accountant are normally key items on the agenda at an AGM. The role of the assurance provider is often misunderstood by those in attendance at AGMs, especially when the organization has a number of shareholders other than management. This is very common, for instance, with condominium organizations. A common scenario at the AGM is that management conducts a review of the financial statements, followed by questions. However, instead of directing questions to management, shareholders often ask and expect answers directly from the Accountant in attendance. While there is no doubt that the Accountant would be able to respond to these questions, this is the role of management – not the Accountant. Once the Accountant responds to the questions regarding the financial statements, rather than the work they performed to reach an opinion on these statements, the Accountant’s and management’s roles become blurred for the shareholder. The lines between the roles become even more confusing if the Accountant has been involved in the preparation of the financial statements as part of a public accounting engagement.

Independence and other considerations

Practitioners are viewed by their clients as more than just assurance providers. Accountants often receive requests for professional advice and other assistance, such as with the preparation of financial statements.

What distinguishes providing professional advice from a management decision or a management function? Paragraph 22 of the *Rule of Professional Conduct 204.4* (Independence Rule) includes the following examples of providing management decisions or functions for the entity:

(i) authorizing, approving, executing or consummating a transaction;
(ii) having or exercising authority on behalf of the entity;
(iii) determining which recommendation of the member or firm will be implemented; or
(iv) reporting in a management role to those charged with governance of the entity.

Members and firms have an ongoing responsibility to recognize threats to independence, and to identify available safeguards to eliminate such threats or reduce them to an acceptable level where independence is required. It is difficult for a member to be independent when providing assurance on their own work (the “self-review threat”). In order to mitigate this threat in engagements where the Accountant assists in the preparation of journal entries and financial statements, steps must be taken to ensure that management approves and accepts responsibility for those adjusting or closing entries and their effect on the financial statements. (For further guidance regarding the preparation of journal entries, refer to paragraph 23 of the Independence Rule).

In situations where the client has non-management shareholders and needs to hold a formally scheduled AGM, the Accountant, in his or her advisory role, can assist management in preparing for the AGM. For instance, they can help management anticipate and prepare answers for questions on the financial statements.

Practical considerations regarding obtaining management’s approval

Reliance on obtaining management’s approval cannot be abused. Conversely, over-reliance on the Accountant to provide advice on how to account for certain transactions could put the Accountant in a management role. If the Accountant provides advice on the appropriate classification of an item – capital versus expense, or in the case of a condominium, operating fund versus reserve fund, for each and every transaction, it is hard to imagine what safeguards could reduce the self-review threat to an acceptable level. In such situations, ideally, the client or a separate bookkeeper should be provided with the appropriate training so that they can prepare the required entries. Failing that, the Accountant may need to have another professional accountant review the entries. If the entries relate to complex transactions that management does not understand, then review by another professional is recommended as an appropriate safeguard. Further discussion as to what constitutes reasonable safeguards is included in paragraph 42 of the Guidance to Rules 204.1 to 204.3 and paragraphs 9 to11 of the Guidance to Rule 204.4(22) to (24).

Communications with management and those charged with governance

Clear, timely, and ongoing communication between the Accountant and management and others charged with governance (if any) is important so as to provide the client with an understanding of the terms of the engagement, including their respective roles and responsibilities, as well as necessary in order for the Accountant to meet assurance standards of the profession.

As no two situations are identical, CPA Ontario members are responsible for ensuring that their own situation complies with the CPA Code of Professional Conduct, By-law and Regulations.

For further guidance, contact a Practice or Member Advisor:
Phone: 416-962-1841, ext. 4456 or toll free at 1-800-387- 0735, ext. 4456.
Email: practiceadvisory@cpaontario.ca or memberadvisory@cpaontario.ca.