# APPENDIX 1C Describe the Different Kinds of Audits, Auditors, and Audit Firm Organizations

## Kinds of Audits and Auditors

**LO7** Describe the other major types of audits and auditors, and audit firm organization.

The risk reduction definition of auditing applies to the financial statement audit practice of independent external auditors who practise in public accounting firms. The word *audit*, however, is used in other contexts to describe broader kinds of work.

The variety of audit work performed by different kinds of auditors causes problems with terminology. Hereafter in this text, the terms *independent auditor*, *external auditor*, *CPA*, and **public accountant (PA)** refer to people doing audit work with public accounting firms. In governmental and internal contexts, auditors are identified as governmental auditors, operational auditors, and internal auditors. While many of these are chartered accountants or certified general accountants, in this text, the initials PA will refer to CPAs in public practice.

**public accountant (PA):** an individual doing audit work with a public accounting firm; includes Chartered Professional Accountants (CPAs)

### Internal and Operational Auditing

The Institute of Internal Auditors (IIA) defines **internal auditing** and its purpose as follows:

> Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.[1]

**internal auditing:** verification work performed by company employees who are trained in auditing procedures; mainly used for internal control purposes, but external auditors can rely on internal audit work if certain criteria are met

Internal auditing is practised by auditors employed by organizations such as banks, hospitals, city governments, and industrial companies. Some internal auditing activity is known as operational auditing. **Operational auditing (performance auditing or management auditing)** is the study of business operations in order to make recommendations about the economic and efficient use of resources, effective achievement of business objectives, and compliance with company policies. The goal of operational auditing is to help managers discharge their management responsibilities and improve profitability.

**operational auditing (performance auditing or management auditing):** auditors' study of business operations for the purpose of making recommendations about economic and efficient use of resources, effective achievement of business objectives, and compliance with company policies

Internal and operational auditors also perform audits of financial reports for internal use, much as external auditors audit financial statements distributed to outside users. Thus, some internal auditing work is similar to the auditing described elsewhere in this text. In addition, the expanded-scope services provided by internal auditors include (1) reviews of control systems for ensuring compliance with company policies, plans, procedures, and laws and regulations; (2) appraisals of the economy and efficiency of operations; and (3) reviews of program results in comparison with their objectives and goals.

Internal auditors need to be independent of the organization's line managers, much like external auditors need to be independent of company management. Independence helps internal auditors be objective and achieve three-party accountability. As noted earlier, you, as a user of audited information, expect the auditor to be unbiased and impartial, as well as competent, in verifying the accuracy of the information you rely on in making your decision. Internal auditors can recommend correction of poor business decisions and practices, and they can praise good decisions and practices. If they were responsible for making the decisions or carrying out the practices themselves, they would hardly be credible in the eyes of the upper-management officers they report to. Consequently, the ideal arrangement is to have internal auditors whose only responsibilities are to audit and report to a higher level in the organization, such as a financial vice-president and the audit committee of the board of directors. This arrangement offers an independence that enhances the appraisal function (internal audit) within a company.

Internal audit can be an important aspect of auditee internal controls, as they monitor auditee operations year round. When such internal independence exists, external auditors may also be able to rely quite a bit on internal audit work as a valuable source of evidence. In the environment of the influential *Sarbanes-Oxley Act* (SOX) legislation passed in the United States, internal auditor reports to independent audit committees are increasingly viewed as indispensable for good corporate governance. In addition, in the SOX world, if an external auditor performs internal audit functions, they are deemed to be insufficiently independent and prohibited from auditing for external reporting. Again, this helps preserve external auditor independence.

## Public Sector (Governmental) Auditing

The OAG is an accounting, auditing, and investigating agency of Parliament, headed by the Auditor General. In one sense, OAG auditors are the highest level of internal auditors for the federal government. Many provinces have audit agencies similar to the OAG, answering to provincial legislatures and performing the same types of work as we describe in this section. In another sense, the OAG and equivalent provincial auditors are really external auditors with respect to the government agencies they audit, because they are organizationally independent.

Many government agencies have their own internal auditors and inspectors, for example, federal ministries such as the Department of National Defence or CRA and provincial education, welfare, and controller agencies. Well-managed local governments (cities, regions, townships) also have internal audit staff. Activities of all levels of government are frequently referred to as the **public sector**.

**public sector:** activities of all levels of government

Internal and public sector auditors have much in common. The OAG and internal auditors share elements of expanded-scope services. The OAG, however, emphasizes the accountability of public officials for the efficient, economical, and effective use of public funds and other resources. CPA Canada sets accounting and auditing standards for all public sector audit engagements, including those of the federal, provincial, and local levels of government.

In the public sector, you can see the audit function applied to financial reports, and a compliance audit function applied to laws and regulations. All government organizations, programs, activities, and functions were created by law and are surrounded by regulations governing the things they can and cannot do. For example, in some provinces, there are serious problems of health card fraud by ineligible persons. A hospital cannot simply provide free services to anyone due to regulations about eligibility of tourists and visitors from other countries. A compliance audit of services involves a study of the hospital's procedures and performance in determining eligibility and treatment of patients. Nationwide, such programs involve millions of people and billions of taxpayers' dollars.

**value-for-money (VFM) audit:** an audit concept from the public sector that incorporates audits of economy, efficiency, and effectiveness

Also, in the public sector you see **value-for-money (VFM) audits**, a category that includes economy, efficiency, and effectiveness audits. Government is always concerned about accountability for taxpayers' resources, and VFM audits are a means of improving accountability for the efficient and economical use of resources and the achievement of program goals. VFM audits, like internal auditors' operational audits, involve studies of the management of government organizations, programs, activities, and functions. The following box indicates the range of activities that VFM audits can cover.

### Some Examples of Recommendations Based on Value-for-Money Audits Conducted by the Ontario Office of the Provincial Auditor

*Health care.* Stronger efforts are needed in using available data to identify pharmacies overcharging the Ontario Drug Benefit Plan. Ontario is unprepared for a flu pandemic despite 44 deaths from the 2003 SARS crisis.

*Archives.* Hundreds of historically significant items, including a valuable Group of Seven painting, have gone missing. Inventory control practices need to be strengthened.

*Education.* Ontario university buildings are in need of $1.6 billion in repairs. Capital asset management systems need to be enforced.

*Environment.* Monitoring of hazardous waste shipment has been lax. Hundreds of tonnes of hazardous waste have gone missing. The ministry's own standards need to be better enforced.

*Transportation.* New drivers are more likely to be involved in collisions if they take the province's beginning driver education course than if they do not. Inappropriate handling of driver education certificates by unscrupulous driving schools is suspected. Systems and procedures for assuring the public's money is properly spent are inadequate.

*Criminal law.* Several hundred names are missing from the sex offender registry. Amendments to legislation are needed.

Source: 2007 annual report by the Office of the Provincial Auditor of Ontario, as summarized by the authors. More-recent reports have similar content but not as varied.

The above list of audits illustrates the huge range of activities that can be audited and important areas of society that are affected. Audits can go well beyond financial statement reporting.

**Comprehensive governmental auditing** involves financial statement auditing, compliance auditing, and VFM auditing. It goes beyond an audit of financial reports and compliance with laws and regulations to include economy, efficiency, and effectiveness audits. The public sector standard on the elements of comprehensive auditing is similar to the internal auditors' view. Public sector standards do not require all engagements to include all types of audits. The scope of the work is supposed to be determined by the needs of those who use the audit results. Auditors' reputations are highest when they meet these needs.

**comprehensive governmental auditing:** auditing that goes beyond an audit of financial reports to include economy, efficiency, and effectiveness audits

Judging by the favourable media attention they receive, Canadian public sector auditors probably have the best reputation of any auditors in the world. For example, Christina Blizzard, a columnist for *The Toronto Sun*, stated in a 2002 column discussing a provincial auditor's report, "How come this province is run by politicians, and not by people who can add, subtract, and oh yes, negotiate a deal with the private sector that doesn't rip off taxpayers? What a pity politicians aren't better auditors—and auditors don't run the province."[2] Also, see below for an interview with former Auditor General of Canada Sheila Fraser. Awareness of the value of public sector audits has now spread to countries such as China, where the National Audit Office of the People's Republic of China has become increasingly active in monitoring China's financial system and exposing bribery, corruption, fraud, capital embezzlement, and inappropriate accounting in state-owned or state-controlled enterprises. Public sector auditors are helping make state capitalism a viable option in China. These public sector auditor roles are outstanding examples of evolving audit societies.

## Sheila Fraser: Patron Saint of Auditors?

Auditor General Sheila Fraser laughs heartily when asked what it's like to be a celebrity.

"I've never really thought of myself as a celebrity, quite honestly. I mean, I'm an accountant. So accountants don't expect to get a lot of public recognition." Still, she adds, as her voice quietly trails off, "It has been an amazing time."

Indeed, it has.

In a decade during which Canadians have had three prime ministers—Jean Chrétien, Paul Martin and Stephen Harper—one thing in Ottawa has always been constant. Fraser, the country's top spending watchdog, was there to keep an eye on the politicians and their bureaucrats. To keep them honest.

She has been—odd as it may sound for an auditor general—a rock star to the Canadian people. Her non-partisan credibility is unimpeachable. Her audits have been fair but uncompromising. The media love her. The bureaucrats respect and fear her. The politicians don't dare criticize her. And now she is leaving. Her 10-year term is up. Monday is her last day on the job.

In a wide-ranging and candid interview with *Postmedia News*, Fraser discussed her tenure and whether bureaucrats trembled when they heard she was headed their way. "Quite frankly, no one likes to be audited. None of us. It's like when Revenue Canada phones you and says they're going to audit your tax return. None of us jump up with joy. I'm sure there is a bit of apprehension, but I would hope that they recognize that we are fair and we have a very rigorous process that we go through to ensure that our audits' conclusions are balanced and based on fact."

Fraser's office has conducted hundreds of audits—some routine, others headline-grabbing. She put a spotlight on the cost of the firearms registry, questionable spending by privacy commissioner George Radwanski and prisons ombudsman Ron Stewart, rebate cheques sent to thousands of dead people for home heating costs, shoddy background checks for passport applications, inadequate national emergency response plans, and the shortcomings of public sector integrity commissioner Christiane Ouimet.

But the two audits for which she will be remembered relate to the Quebec sponsorship program. The first was released in May of 2002. She reviewed $1.6 million in contracts awarded by Public Works to a Montreal-based firm, Groupaction, and found the government "did not obtain all of the services for which it paid."

Then came the quote for which she is famous. Fraser blasted senior public servants for breaking "just about every rule in the book." There was an "appalling lack of documentation" and a violation of rules and policies on financial transactions. "This is a completely unacceptable way for government to do business," she said at the time. "Canadian taxpayers deserve better." Strong words for an auditor general. The Mounties began an investigation for possible criminal violations.

It didn't end there. Fraser's instincts were razor sharp. She began a broader audit of all government advertising and sponsorship programs. In February 2004, that audit was released. It was a bombshell. She found Liberal-friendly communications firms collected millions of dollars in commissions for little, if any, work. "This is such a blatant misuse of public funds," said Fraser. "It is shocking." It was the catalyst for a string of events that would change Canadian history. It led to the Gomery commission of inquiry into political kickbacks and, eventually, criminal convictions against some involved in the sponsorship scheme. Ultimately, it contributed to a souring of public support for the governing Liberals and their defeat in the 2006 election by Stephen Harper's Conservatives.

Auditor General Sheila Fraser is leaving her post with a blunt warning for the federal government: Canadians need to be told much more about the looming costs of the aging population, climate change and this country's deteriorating infrastructure. . . .

On Wednesday, she acknowledged that the sponsorship audit was the most heavily covered by media and perhaps the most "sensational of the audits that we did." She said it led to an increase in her office's independence and an expansion of its mandate. The Quebec-born accountant is considered one of the most trustworthy and respected public officials—elected or otherwise—in Ottawa. Fraser was the third "most trusted Canadian" in a *Reader's Digest* poll published this month (behind environmentalist David Suzuki and building contractor Mike Holmes).

Source: Excerpts from Mark Kennedy (*National Post*, May 25, 2011, news.nationalpost.com/news/canada/outgoing-ag-sheila-fraser-calls-for-focus-on-climate-health-care); Bruce Cheadle, "Auditor-General fires parting shots on climate change, native policy" (*Canadian Press*, May 25, 2011); *HuffPost Canada Politics,* "Sheila Fraser as Auditor General: Her Greatest Hits and Reports," August 9, 2011, huffingtonpost.ca/2011/06/09/sheila-fraser-the-auditor-general_n_871980.html.

## Regulatory Auditors

For the sake of clarity, other kinds of auditors deserve separate mention. You are probably aware of tax auditors employed by CRA. These auditors take the "economic assertions" of taxable income made by taxpayers in their tax returns and audit these returns to determine their correspondence to the standards found in the *Income Tax Act*. They also audit for fraud and tax evasion. Their reports can either clear a taxpayer's return or claim that additional taxes are due.

Federal and provincial bank examiners audit banks, trust companies, and other financial institutions for evidence of solvency and compliance with banking and other related laws and regulations. In 1985, these examiners as well as external auditors made news with the failures of two Alberta banks—the first Canadian bank failures in over 60 years.

**fraud:**
in financial statement auditing, an intentional act by one or more individuals (the fraudsters) among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage over someone (the victim)

**fraud auditing:**
a proactive approach to detecting financial frauds using accounting records and information, analytical relationships, and an awareness of fraud perpetration and concealment efforts

**forensic accounting:**
the application of accounting and auditing skills to legal problems, both civil and criminal

## Fraud Auditing and Forensic Accounting

**Fraud** is an attempt by one party (the fraudster) to deceive someone (the victim) for gain. Fraud falls under the Criminal Code and includes deception based on manipulation of accounting records and financial statements. Recently, auditor responsibilities to detect fraud have significantly increased. Financial statement auditors are now responsible for detecting material financial reporting fraud. They can no longer presume that management is honest. The PA needs to look for fraud risk factors. Some firms are beginning to screen clients before any wrongdoing is even suspected. The screening is done by specialist auditors who may do sensitive interviews or review unusual transactions and suspicious circumstances. In a normal audit, the procedures are diagnostic, not investigative. This is a distinction we will make clear later in the text.

**Fraud auditing** is a separate engagement that might be done on behalf of the audit committee—a special in-depth investigation of suspected fraud by those with specialized training, and often involving a specialist auditor. It is a proactive approach to detecting financial statement deception using accounting records and information, analytical relations, and awareness of fraud perpetration and concealment in developing investigative procedures.

Fraud auditing and forensic accounting are huge growth areas for public accounting firms in today's world. The main reason for this is that white-collar crime is one of the fastest growing areas of crime, and police and regulators need the expertise of auditors to carry out these investigations. But there are other factors, and these relate to the broader category of forensic accounting. **Forensic accounting** includes fraud auditing and uses accounting and/or auditing skills in investigations involving legal issues. The legal issues might be criminal (e.g., fraud) or civil (e.g., commercial disputes). Common examples of civil legal disputes are insurance claims for business losses of various types and valuation of spousal business assets in a divorce proceeding.

Two specialist designations are available for investigative engagements. One for CPAs is referred to as CFF, for Certified Financial Forensics. See the website at difa.utoronto.ca for details. There is also an Association of Certified Fraud Examiners (ACFE), providing training for an internationally recognized designation that does not require any other accounting designation. See its website at acfe.com for details.

Some people feel all PAs should take more responsibility for detecting fraud, especially financial statement fraud, and that this may be the main reason for the existence of the profession. The controversies generated by the economic crisis of 2008/2009 may strengthen this perspective. Appendix 1B on Connect discusses this increasingly influential view in more detail. Chapter 21, Part II (available on Connect), also gives more details on forensic accounting and fraud auditing.

## Review Checkpoints

1C-1 Distinguish between forensic accounting and fraud auditing.

1C-2 What is fraud?

1C-3 What is operational auditing?

1C-4 What are the elements of comprehensive auditing?

1C-5 What is compliance auditing?

1C-6 Name some other types of auditors in addition to external, internal, and governmental auditors.

1C-7 Are financial statement audits intended to detect fraud?

# *Public Accounting*

## The Accounting Profession

By 2015, all of Canada's professional accounting bodies representing Chartered Accountants (CAs), Certified General Accountants (CGAs), and Certified Management Accountants (CMAs) at the national and provincial levels were unified to create a single designation for professional accountants, the CPA designation. CPA Canada is now the national umbrella organization, and there are CPA counterpart organizations (e.g., CPA Ontario) for all provinces and territories.

The vision of the CPA designation is to be "the pre-eminent internationally recognized Canadian accounting and business credential that best protects and serves the public interest." CPA Canada aims to create professional accounting education requirements that meet or exceed the requirements of the leading global accounting bodies to facilitate a CPA's ability to practise anywhere in the world. See cpacanada.ca for more information.

The CPA education program is developed nationally but delivered provincially. Since regulation of professionals is a provincial matter, each province must pass its own legislation regulating who is allowed to practise public accounting. For example, the *Public Accounting Act of Saskatchewan*, passed in April 2014, united the three accounting bodies in that province.

Detailed requirements for becoming a CPA are given at the CPA certification program website at cpacanada.ca/en/become-a-cpa/why-become-a-cpa/the-cpa-certification-program.

The following is a brief outline of the requirements. All CPAs must have a university degree and meet the prerequisites for the various modules (courses). The CPA Prerequisite Program (CPA PREP) is designed for those who do not have an undergraduate degree in accounting. The PREP consists of two modules in the six technical competency areas of financial reporting, strategy-governance, management accounting, audit and assurance, finance, and tax. The CPA Professional Education Program (CPA PEP) is a graduate-level program that builds on the knowledge of PREP material. The PEP involves two core modules that everyone must take and two elective modules. Public accounting candidates must take the assurance and tax modules as electives. In addition, there are two capstone integrated modules to prepare students for the final professional-level exam. Practical experience requirements must also be satisfied.

The CPA program offers considerable flexibility to pursue various areas of interest and careers. Candidates with a primary interest in public accounting will be required to follow a specific path within CPA certification with a focus on assurance and tax. This textbook gives you most of what you will need to know for assurance.

The goal is to give CPAs a professional credential that is a competitive advantage to accountants on the job market and in their careers. The CPA requires lifelong learning, adherence to a code of conduct, and uniform standards of exit or entry to the profession. Indeed, what distinguishes a CPA from a business degree is that it is a professional credential similar to that of a doctor or lawyer. However, CPA Canada also recognizes that there are accounting careers that do not require qualified CPAs, so they are also offering the Advanced Certificate in Accounting and Finance as an intermediate-level certificate for accountants. At least one auditing course will be required for all of these credentials, and in-depth knowledge of auditing and assurance must be demonstrated on the Common Final Exam for all public accounting candidates.

## Public Accounting Firms

Many people think of public accounting in terms of the “big” accounting firms. There are four such firms, often referred to as the “Big Four”: Ernst & Young, Deloitte & Touche, KPMG, and PricewaterhouseCoopers. Notwithstanding this perception, public accounting is carried out in hundreds of practice units ranging in size from sole proprietorships (individuals who hang out a shingle) to international firms employing thousands of professionals. Many students look upon public accounting as the place to begin a career; they gain intimate knowledge of many different business enterprises for the first three to ten years, and then they select an industry segment in which to pursue their interests. Public accounting experience is an excellent background to almost any business career.

Public accountants do business in a competitive environment. They perform audit services in the public interest, but they also need to make a living at it, so they have a profit motive just like other professionals. This duality—profit motive and professional responsibility—creates tensions in their work. As a result of increased litigation against them in the 1990s, the profession lobbied for legislation making it harder to sue professional accounting firms. In 1995, in the United States, legislation was passed allowing public accounting firms to take on the **limited liability partnership (LLP)** form of organization. The LLP structure, which will be covered in Chapter 3, is now common in Canada and around the world.

**limited liability partnership (LLP):** a company whose partners’ liability is limited to the capital they have invested in the business

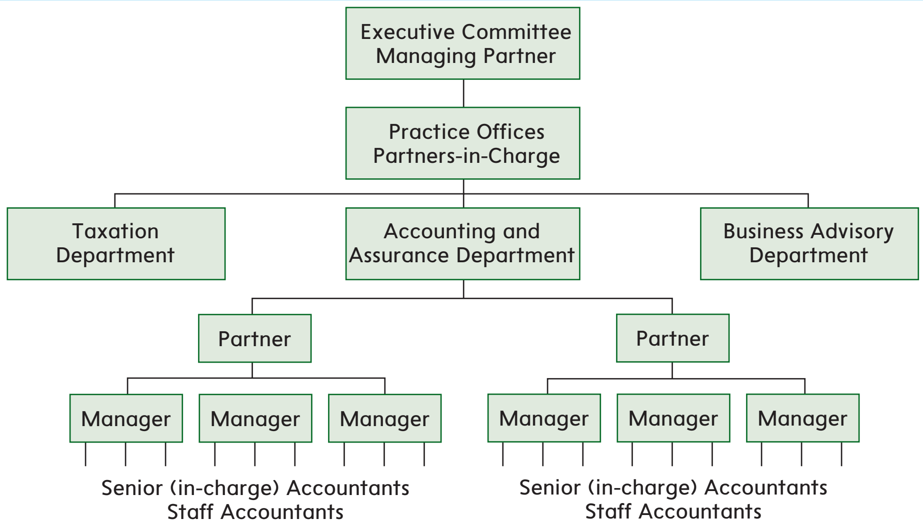
Throughout the last few decades, the non-audit services provided by CPA firms have grown enormously. This growth has led to concerns about the independence of audit services provided by accounting firms that also engaged in extensive, possibly conflicting non-audit services for the same client, or even different clients. Many cite this lack of independence as the primary cause of the profession’s problems in today’s world.

Public accounting services involve many PAs employed in assurance, tax, and consulting work. Although structures will differ, Exhibit 1C–1 shows the organization of a typical larger public accounting firm. Some firms include additional departments, such as small-business advisory or compensation consulting departments, while others might have different names for their staff and management positions.

In Exhibit 1C–1, you see the various staffing levels within a public accounting firm. A recent graduate will most likely start work as a staff accountant. This typical entry-level position involves working under the supervision of more-senior people. As auditors need to verify virtually everything the auditee claims in its financial reporting, there is much mundane work to be done in verifying the math and the extensions of financial data and reconciling the physical amounts with recorded amounts. How does a user know the balance sheet balances? Someone needs to verify the seemingly obvious, and that someone is the auditor. You should look upon this experience as a form of apprenticeship. In most firms, your responsibilities will increase quickly once you demonstrate your reliability.

**EXHIBIT 1C–1**

**Typical Organization of a Public Accounting Firm**




Depending on the firm, there may be several levels of staff accountants. Individuals who have just passed the professional exams are usually the most senior staff accountants and are ready to be promoted to manager once they have had a few years of experience and demonstrated leadership potential. Leadership means having people-management skills that are successful with both clients and staff accountants. Technical skills alone are usually not sufficient for a manager. The ability to expand the firm's practice becomes increasingly important. Getting along comfortably with client personnel is a high priority because otherwise it is difficult to get the information an auditor needs. These personal dynamics become more important at the higher levels in a public accounting firm. Keep this context in mind as you read descriptions of the various procedures in subsequent chapters. Managers supervise most of the details of the audit engagement, as explained throughout this text. They are the backbone of the audit at the technical level.

Partners, working closely with managers, take overall responsibility for the audit and lead meetings with auditees' management and audit committee. Partners usually have at least 10 years' experience and are the only permanent employees in a public accounting firm. About 5% of those with a PA designation become partners, while the rest go into industry or other public accounting firms. For more information on these positions, career opportunities, and the latest salary trends for PAs in North America, see the website at www.roberthalf.ca/en/work-with-us/our-services/finance.

## Assurance Services

Audits of traditional financial statements are the most frequent type of assurance services for public companies and for most large and medium-size non-public companies. Auditing amounts to 20–40% of the business of larger public accounting firms. Audit fees make up about 10% of revenues for smaller public accounting firms, and the reporting standards tend to be based on either private entity GAAP or public sector GAAP. Most of this text is about the audit of traditional financial statements using some form of GAAP.

Accounting and review services are the "non-audit" or other services performed frequently for medium-size and small businesses and not-for-profit organizations. A great deal of non-audit work is done by small public accounting practice units. PAs can be associated with clients' financial statements without giving the standard audit report. They can perform compilations, which consist of writing up the financial statements from a client's books and records, without performing any evidence-gathering work. They can perform reviews, which are lesser in scope than audits but include some evidence-gathering work. (Compilation and review standards are explained in more detail in Chapter 17, available on Connect.)

Assurance services are also performed on information in presentations other than traditional financial statements. Since assurance is the adding of credibility by an independent party (assurer, auditor) to representations made by one person or organization to another, demand for a greater variety of PA engagements has grown. PAs provide assurance to vote counts (e.g., for the Academy Awards), to dollar amounts of prizes claimed to have been given in lottery advertisements, to investment performance statistics, and to claims made about the capabilities of computer software programs. These non-traditional services are governed by professional standards.

In this text, we reference three sets of professional standards—Canadian; international; and, to a lesser extent, American—which all influence each other. For example, CPA Canada's Auditing and Assurance Standards Board influences international standards by providing commentary on exposure drafts of new international standards. Once a new international standard is adopted, CPA Canada issues an exposure draft of any unique-to-Canada modifications that must be made before they can be incorporated into CPA Canada standards. Other countries follow similar processes, and, increasingly, the trend is convergence to a common set of standards. For example, CPA Canada adopted international standards with minor modifications in 2011. The CASs are the main professional standards we refer to in this text.

Convergence is a defining characteristic of today's auditing and makes it more important to be aware of the similarities as well as the differences among the standards. International standards reference IFAC's **International Standards on Auditing (ISAs)**. U.S. Public Company Accounting Oversight Board (PCAOB) standards are referenced to the PCAOB's **auditing standards**. There are also separate audit standards in the United States for non-public companies promulgated by the American Institute of CPAs (AICPA).

**International Standards on Auditing (ISAs):** the auditing standards of the International Federation of Accountants

**auditing standards:** the subset of assurance standards dealing with "high" or "reasonable" levels of assurance in assurance engagements

## Taxation Services

Local, provincial, national, and international tax laws are often called "full-employment acts" for accountants and lawyers; they are complex, and PAs perform tax planning and tax return preparation services in the areas of income, sales, property, and other taxation. A large proportion of small accounting firm work is tax practice. Tax laws change frequently, and tax practitioners have to spend considerable time in continuing education and self-study to keep current.

## Consulting or Management Advisory Services

All accounting firms handle a great deal of consulting and management advisory services (some firms refer to these as *management ancillary services*). These are the great "open end" of public accounting practice that puts accountants in direct competition with the non-public accounting consulting firms. The field is virtually limitless, and no list of consulting activities could possibly include all of them. Indeed, accounting firms have created consulting units with professionals from other fields—lawyers, actuaries, engineers, and advertising executives, to name a few. Until the Enron scandal in 2001/2002, many of the large accounting firms had tried to become one-stop shopping centres for clients' auditing, taxation, and business advice needs. However, through the chilling effect of corporate scandals at the beginning of the century, these activities have been greatly restricted whenever the engagement includes assurance services.

Nevertheless, consulting work for non-audit clients may continue to expand to new non-conflicting areas such as eldercare, where PAs provide a package of services ranging from assurance to consulting, bill paying, and financial planning for the elderly. In large public accounting firms, the consulting department is quite often independent from the auditing and accounting departments, performing engagements that do not directly interact with the audits. Public accounting firms are greatly restricted in the types of consulting or business advisory services they can provide to audit clients, particularly for publicly listed companies, but there are no such restrictions for non-audit clients.

## KEY TERMS

auditing standards 1C-8
comprehensive governmental auditing 1C-3
forensic accounting 1C-4
fraud 1C-4
fraud auditing 1C-4
internal auditing 1C-1
International Standards on Auditing (ISAs) 1C-8
limited liability partnership (LLP) 1C-6
operational auditing (performance auditing or management auditing) 1C-1
public accountant (PA) 1C-1
public sector 1C-2
value-for-money (VFM) audits 1C-2

## ENDNOTES

**1** See theiia.org.

**2** Christina Blizzard, *The Toronto Sun*, December 4, 2002.