

**Report to The Public Accountants Council for the Province of Ontario (“PAC”) on the Institute of Chartered Accountants of Ontario (“ICAO”) Triennial Evaluation
For the Period from November 1, 2009 to October 31, 2012
Findings as of August 15, 2013**

From: Gary Porter, FCGA, CPA, CA

Section 21 of the Public Accounting Act, 2004 (“Act”) requires the Council to conduct periodic reviews of the operations of each Authorized Designated Body (“ADB”) at least once in every three years and to report on them to the Minister.

The purpose of the periodic reviews (as derived from sections 19 and 21 of the Act) is to:

- (i) determine whether the ADB is complying with the Council Standards;
- (ii) oversee the ADB in its capacity to license and govern the activities of its members as public accountants; and
- (iii) determine whether the purpose and objects of the Council are being met.

Section 21(2) of the Act contemplates that in addition to the periodic reviews of an ADB, the Council may conduct a special review of an ADB when the Council concludes that it is in the public interest to do so.

Section 21(3) of the Act requires an ADB to cooperate with the Council in its reviews.

The original authorization process (*Report on the Assessment of Substantial Equivalence: ICAO*, issued in December 2008) reviewed and reported that the processes of qualifying and governing Licensed Public Accountants (“LPAs”) by the ICAO were substantially equivalent to the Council Standards.

The report for the 2009 triennial review for the three year period ended October 31, 2009 was submitted to Council and was dated January 11, 2011. It provided the basis for a letter from the Council to the Minister on the ICAO’s compliance with PAC standards over this period.

This current 2012 triennial review process has been performed by a team of evaluators (“Team”) with expertise in education, examination, experience, and regulatory/legal standards. It was carried out in accordance the plan presented to the Council at its meeting on March 26, 2013 and used the risk-based approach that was reviewed with Council on March 23, 2010. The Team is familiar with the current public accounting operations of the ICAO. Based on this understanding, the Team has assessed where there may be risks of non-compliance with PAC standards.

The Team has performed the following procedures:

1. A detailed review of the Activity Reports submitted for each of the years ended October 31, 2010, 2011 and 2012. Analytical review procedures were applied to the data presented in the three activity reports and to changes in bylaws, regulations, policies, rules and key controls reported therein.
2. A review of the ICAO Annual Reports for the three years;
3. A review of specified documents provided by ICAO at the Team’s request;

4. Enquiry and discussion with ICAO management regarding the results of our review and analysis; and
5. Team discussion of findings and recommendations.

The Team members were assigned to review Council Standard groupings in accordance with their areas of expertise. The report is organized around these groupings as follows:

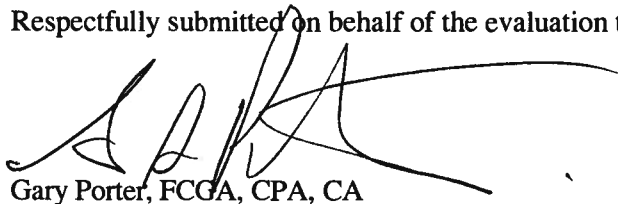
1. Competencies, whether to be acquired through study and examination or by practical experience: Charlie Vincent
2. Pre-professional and professional education: Wendy Rotenberg, Sue McCracken
3. Examinations: Ed Weinstein
4. Practical experience and maintenance of standards for LPAs: Gary Porter
5. Legal and discipline matters: Jeremy Devereux and Jennifer Teskey, Norton Rose Fulbright Canada LLP.

The overall Team co-ordination was undertaken by Gary Porter.

Findings

Based on the results of the procedures performed by the evaluation team, I am satisfied that the ICAO was in substantial compliance with all of the Standards developed by the Council pursuant to Section 19 of the *Public Accounting Act, 2004*, as amended during the reporting period, during the three year reporting period ended on October 31, 2012.

Respectfully submitted on behalf of the evaluation team.



Gary Porter, FCCGA, CPA, CA

ICAO Compliance Evaluation October 31, 2012

INTRODUCTION

The following document summarizes the risk of non-compliance with PAC standards as assessed by team members. In addition, the report presents the evidence reviewed, commentary thereon and conclusions regarding substantial compliance or non-compliance with PAC standards.

The team consists of experts in the areas of accounting, auditing and finance at the post-secondary level, professional accounting competencies, quantification and evaluation of the examination systems, legal and regulatory matters and oversight and governance of licensed professionals. The evaluators of each area assessed and quantified risk in accordance with their own area of expertise. In the assessment of competencies, for example, a high/moderate/low classification of risk is used. In other areas a significant/non-significant classification is used. In these, only the risks assessed as significant are included in the report.

A risk, for purposes of this report, is the occurrence of an event or condition involving a negative outcome, in this case non-compliance with PAC standards. The likelihood of the occurrence of such events or conditions and the impact resulting from such occurrence are the two key elements considered with respect to risk classification, whatever the classification system used.

1. PAC HANDBOOK, PARTS I AND II

COMMENTARY

The PAC Handbook, Part I (*Professional Competency Requirements for Public Accounting*) and Part II (*Practical Experience Requirements for Practising Public Accounting*), forms part of the PAC Standards. It is the foundational reference document for Standards:

2. Post-secondary education requirements,
3. Pre-licensing education and study requirements,
4. Pre-licensing experience requirements,
5. Approved training offices, and
6. Examinations used for licensing public accountants
8. Mandatory post-licensing public accounting experience and continuing professional development.

Accordingly, this commentary on the Handbook precedes discussion of each of these standards, which themselves contain their own references to one or other parts of the Handbook.

The Handbook, with minor descriptive changes, was developed from the 2004 ICAO Competency Map and was adopted by the PAC in 2006. Since then the Handbook has remained unchanged as the PAC wished to hold this benchmark constant throughout the compliance assessment to authorize the three Ontario designated bodies.

The most significant change in the ICAO Competency Map occurred in 2007, when it was changed to include only the competencies that were examinable on the ICAO uniform evaluation ("UFE"). The other Handbook competencies were deemed more appropriate for evaluation through the experience process in the workplace. They were set out in the "Practical Experience Requirements" document, with a related evaluation document called the Record of CA Qualifying Experience ("RQE"). Accordingly, in our

assessment of compliance we reviewed both the Examination competency map and the Practical Experience Requirements and determined that between them the new ICAO approach to evaluation of competencies remained substantially equivalent to the PAC Handbook requirements.

POTENTIAL RISKS AND POSSIBLE IMPACT

Aspects of Competencies and Ensuring that Students Demonstrate their Achievement

The list of risks set out in a. through g. hereunder, refers to certain aspects of the competencies set out in the Handbook. This list of risks begins with a reminder of the Handbook terminology that is used in describing these risks and evaluating students' mastery of the Handbook's list of competencies.

Prior to 2004 the ICAO did not use "Competency Maps" as they are now understood: the emphasis before 2004 was on "knowledge", and that is what students had to demonstrate to earn the CA designation. The 2004 ICAO Competency Map, and hence the Handbook, changed to the emerging educational concept of "competencies", whereby "knowledge" was expanded to add "skills" (the ability to apply knowledge) and "attitudes" (the context in which skills were applied, such as leadership, ethical behaviour, etc.). "KSA" became the acronym when referring to a competency's constituent elements, and students were to be assessed on their demonstration of the competencies defined in the Handbook.

The introduction of the concept of competency meant that assessment of mastery became more complex. Of the three elements of a competency -- the KSA -- "knowledge" was the easiest to assess by way of examinations, and skills could be assessed in examinations to some extent by way of measuring the application of knowledge to case-studies and other simulations. "Attitudes", being primarily demonstrated as professional behaviour in the work place, were hardest to evaluate in a written examination. Risk a., below, reflects a change toward acknowledging that the work place is a better place to assess many skills and attitudes ("attitudes" being the "Pervasive Qualities" set out in the Handbook).

The Handbook incorporated the ICAO concept that not all of the competencies could be mastered to the highest level at the time of final assessment for earning the CA designation. For that matter, as with Risk b. below, part of the annual ICAO competency-map annual revision process was to evaluate if a competency was set at the proper mastery level as the ICAO gained a better understanding of the application of the competency in practice. From time to time a very small number of competencies had their required mastery level changed.

The three levels of mastery -- simply listed as A (highest level), B and C in the Handbook -- are also known as the requirement to demonstrate "Mastery", "Comprehend", and "Detect" levels of competence. "Mastery" is the ability to independently identify and complete all aspects of a task in normal circumstances; "Comprehend" differs from "Mastery" in that dependence on a more skilled practitioner is required for assistance in final resolution of the task; and "Detect" is demonstration of an understanding of the task without actually performing it.

Classification of Competency-Related Risks

- a. **High** - Certain competencies which have been moved to the work experience area, usually in the "Pervasive Qualities" areas, on the grounds that they were better learned and assessed in the work place. However, a student's level of capability with every work experience competency is not assessed by anyone in terms of quality of performance. Even if the competencies have been moved to the work experience area and thus not 'lost', there is the risk that the moved competencies may still not be dealt with to the level required by the Council's standards.

- b. **Moderate** - Competencies which have been dropped entirely from the Competency Map on the stated basis that they are "considered beyond the point of writing the UFE therefore dropped". Clearly this begs the question of 'what has changed' from before, when they were considered appropriate to an entry-level LPA. Most appear to be at a 'Detect' or 'Comprehend' level, rather than a 'Perform' level. However dropping them means a change in how the ICAO presents the competency level of the new LPA, and we should have some understanding of why this has been done and what the cumulative impact is in terms of the whole Competency Map.
- c. **Moderate to High** - While the competency remains unchanged (although it has often been combined with another competency in the competency map), there are a number of competencies for which the knowledge and application levels have been lowered. In some cases the stated reason is, again, that the competency level has been moved from A (Perform) to B (Comprehend) "to reflect a new, and lowered, definition of what the entry-level CA competency-mastery requirement is at the point of writing the UFE". The lowering of requirements is assessed as having a higher risk than those referred to at b. above because there is movement from level A, rather than between levels B and C.
- d. **Low to Moderate** - In many cases there have been wording changes (e.g. when competencies are re-allocated to other sections, or combined, and, it appears, to simplify, the amount of detail provided). The risk is that simplification eliminates the level of complexity of knowledge and application required by the PAC Competency Map.
- e. **Low to Moderate** - Condensation or elimination of competency statements prescribed by PAC because of coverage elsewhere such as in sections of the CICA Handbook developed since the PAC map. Competencies are intended to reflect the requirements of the CICA Handbook contents: the need is to ensure that the PAC topics are covered by the CICA Handbook topics.
- f. **Low** - In terms of competency KSAs, the Handbook enlarges on the knowledge requirements by providing a Knowledge Reference List (KRL) as part of the Competency Maps. The ICAO has updated its KRLs over the years, so they no longer compare exactly to the PAC KRLs. However the evaluators understand that the 2004 knowledge references have become outdated or incomplete in a number of areas (especially with regard to changes in the Tax Act and to the advent of IFRS and Canadian Auditing Standards material). While the presumption is that the ICAO has done a good job of updating knowledge requirements it was considered worthwhile to look at what they have updated and very briefly check with Subject Matter Experts ("SMEs") with regard to whether the KRL list in the SME's area of specialization appears to be up to date.
- g. **Low** - The ICAO map may add competencies beyond those required by the PAC Handbook. There is a minor risk that the new competencies may not be consistent with the intent of the competencies in the PAC Handbook.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

The PAC Handbook Part I Competency Map and the current ICAO Competency Map.

CONCLUSIONS AND OBSERVATIONS

Substantial compliance with the Handbook.

2.A PAC STANDARD 2 – PREREQUISITE KNOWLEDGE

COMMENTARY

In education, the generic assessment tool is based upon the three types of items to review that in combination are indicative of the quality of an educational program. These are the quality of the students admitted to the program, the quality of the program contents and the quality of the instructors/instructional methods. The generic assessment tool also separates out pre-requisite knowledge (PAC Standard 2) from the professional program of the ADB (PAC Standard 3). In addition, the contents of the examinations used to evaluate the students were assessed by the education subgroup. The administration of the examinations and analysis of student responses, setting of pass rates, etc. were assessed by the examination subgroup and this falls under PAC Standard 6.

In identifying the risks to assess in the first Triennial Review of the ICAO's educational programs, the main sources referred to included:

Recommendations made in the original ICAO review that relate to education, Schedule 4 of the EAG (Educational Assessment Group report), and

The Evaluation Guidelines for Professional Education Programs which were used in the original assessment of the ICAO. This is the "Generic Assessment Tool".

POTENTIAL RISK AND POSSIBLE IMPACT

The risk is that entering students will not possess the required prerequisite knowledge to be prepared for and to properly benefit from the Professional program.

Examples of questions that need to be answered during our engagement:

- Ontario is recognizing more "degree granting institutions"; how are these being recognized and incorporated? Does the ICAO accept less rigorous prerequisite courses?
- What proportion of students and courses are coming from possibly lower-calibre educational organizations and what sort of CKE results are these people achieving?
- What are the "case by case" analyses done for college level and other courses, not listed on the ICAO website specifically?

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

- Actual records of a sample of students from various institutions including out-of-province
- Trends in applicant profiles
- Evidence on appropriate granting of prerequisite exemptions (e.g. mature students)
- Evidence of annual review of underlying courses from post-secondary institutions
- Interviews of staff making admission decisions

Regarding student admissions, the Triennial Review will include:

- interviews of admissions and senior staff regarding the numbers of students accepted over the three year period, as well as their qualifying date (grades, where courses were taken, fulfillment of degree requirements, etc.)
- trends in student numbers and sources of students should be discussed and documented
 - o schools where courses were taken in Ontario
 - o out of Province students
 - o out of Country students
 - o Students granted exemptions from normal requirements due, for instance, to maturity
- techniques for keeping up to date on University course and program offerings to be sampled for effectiveness
- changes in the environment to be discussed and documented including the impacts of:
 - o additional Provincial recognition of new “degree granting institutions” which may offer less rigorous courses
 - o on-line courses which may be less rigorous from some institutions

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

2.B PAC Standard 2 – Prerequisite Knowledge

COMMENTARY

The Core Knowledge Exam (“CKE”) is an important screen of applicant quality. Preparation for the CKE involves simultaneous review of all background subjects in an integrative learning experience. Students arrive at the CKE from a variety of university programs and the courses they have taken, and instructors they have had, can be quite different. The CKE thus serves as a quality control, and also as a refresher for students prior to the School of Accountancy (“SOA”).

POTENTIAL RISK AND POSSIBLE IMPACT

Is the CKE Measuring the Prerequisite Knowledge of candidates and properly screening them as eligible for the SOA? The risk is that the CKE exam will not appropriately screen whether applicants possess the required university level knowledge that underlies the required competencies.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

- Evidence of implementation of domain-sampling techniques in preparation of the CKE
- Analysis of CKE results for people from different institutions and with different grades in their university courses. Interview ICAO staff responsible for preparation of the CKE and for managing the grading

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

3.A PAC Standard 3 – Professional Program

COMMENTARY

The ICAO Professional Education Program at the time of the initial review was comprised of:

- Self Study Preparation completed on a voluntary basis
- 3 week School of Accountancy program (in person)
- Practice Examination
- Actual SOA Examination
- Uniform Final Examination

The SOA contents, instructors and instructional methods are considered here. Then we turn to the SOA exams (practice and actual) and the UFE.

POTENTIAL RISK AND POSSIBLE IMPACT

The risk is that the SOA may not adequately cover and integrate the required competencies, and at the appropriate levels of proficiency.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

- Documentation relating to the self-study program and whether it is now mandatory for students entering the SOA
- Interview of senior ICAO staff regarding any changes in their Professional program since the last review, including changes to contents, instructor staffing, teaching and learning methodologies, etc.
- Discussion/documentation relating to whether the ICAO has implemented the recommended requirement that students attend the SOA in order to be eligible to write the examination at the end
- Discussion and documentation regarding whether the ICAO has implemented the recommendation regarding better balance in the SOA curriculum
- Discussion/documentation regarding whether the ICAO has implemented the recommendation that there be a closer relationship between the SOA course and the SOA exam contents
- Interviews with students to verify implementation of changes to the SOA and whether the SOA meets their needs

- Review of a highly integrative case from the SOA, to perform a substantive test of integration through examination of a case selected by the ICAO as exemplary of integration of core competencies, and pervasive qualities and skills

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

3.B PAC Standard 3 – Professional Program

COMMENTARY

The SOA should summarize and integrate the knowledge underlying the core competencies of Assurance and Performance Measurement, with the other underlying knowledge areas such as Finance and Tax. The SOA Practice Exam and Actual Exam should likewise sample from this domain of knowledge and provide opportunities to practise and demonstrate integration skills.

POTENTIAL RISK AND POSSIBLE IMPACT

The risk is that the evaluation of students, and feedback they receive, will not include an appropriate sample of topics from the underlying knowledge areas and integration of these topics. Failure to do so would improperly prepare students for the UFE and for entry to public practice.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

- Review of SOA exam content, including procedures for domain sampling and execution of these new procedures
- SOA pass rates on practice and actual examinations, and any changes or trends in performance since the first review
- Review of any exceptions whereby university students are not required to complete the SOA in order to attempt the UFE (e.g. Waterloo)
- Interviews with preparers of SOA examinations and perhaps with students, to ensure that the procedures are executed as stated

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

3.C PAC Standard 3 – Professional Program

COMMENTARY

The UFE is the final licensing exam in the ICAO program.

POTENTIAL RISK AND POSSIBLE IMPACT

The risk is that ICAO Domain Sampling may not be sourced from the required competencies and qualities when preparing the UFE. Domain sampling is needed in order to ensure that candidates are evaluated adequately on the UFE and that they possess the full range of competencies per PAC requirements.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

- documentation relating to the UFE
- number of writers
- pass rates, trends, etc.,
- relationship between UFE performance and SOA performance
- process for monitoring the domain sampling of UFE contents and its execution

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

3.D PAC Standard 3 – Professional Program

Continuing Concern:

A key area of concern for the three-year period under review is, as identified in the original triennial ICAO report, related to the admission and flow through of students lacking work experience, or having non LPA work experience, as they progressed through the SOA and prepared for the UFE and how these two groups might impact the evaluation of the LPA candidates. Based on the review of the period of November 1, 2009 to October 31, 2012, there is still a concern. The review indicates that the mixing of LPA and other types of candidates, with differing amounts and nature of work experience may have had some impact on the education and examination process for LPA candidates.

In particular the addition of different non-public accounting “roles” on the UFE to accommodate the non LPA candidates now writing the UFE may have resulted in (a) disadvantages to the LPA candidates with traditional audit firm experience and thereby (b) improper evaluation of the LPA candidate with their traditional audit firm experience.

The UFE reports during the period under review note the challenges presented by UFE questions seeking answers from the perspective of non-public accounting roles for the LPA candidate. For example, a UFE question might require the candidate to prepare a recommendation from the CFO of a manufacturing firm to the CEO. Specifically, it was noted that some LPA students had difficulty placing themselves in the non-audit roles and would therefore lose sight of how to correctly respond from the perspective of the specific role assigned and fall back into their traditional audit role (See also Page 18 under evaluation of Standard 6).

To complicate matters, the presence during the same period of students with no work experience at all created a 3rd category of candidate.

The ICAO has tracked the performance and flow-through of all three types of candidates (no work experience, LPA work experience and other work experience) and is aware of these issues. It is recommended that this vigilance be continued and that careful attention be paid to ensuring that LPA candidates are properly evaluated.

4.A PAC Standard 4 Pre-licensing Experience Requirements and Standard 5 Approved Training Offices

COMMENTARY

The cornerstone of the ICAO's prescribed practical experience requirement is that students be trained only in those offices approved by the institute (CATOs) as offering a sufficient amount and variety of appropriate experience to prepare them to practise as chartered accountants.

The competency requirements for CA qualification are grouped into six areas, each of which has its own specific competencies. The six competency areas are:

- Performance Measurement and Reporting
- Assurance
- Taxation
- Governance, Strategy and Risk Management
- Management Decision Making
- Finance

To meet the depth of competency development requirement, an applicant must demonstrate all of the specific competencies within one or the other of Performance Measurement and Reporting or Assurance.

To meet the breadth of competency development requirement, the applicant must demonstrate at least half (50 per cent) of the specific competencies in at least two of the five other competency areas.

Attainment of required hours by category is reported by students and certified by the CATO to the ADB on specific forms.

Key Control - Practice Inspection ("PI") is assigned the task of approving CATOs and the number of students they may have. It is also responsible to assess the CATO re amount and range of work and competency development as part of the PI process. During the period under evaluation, PI developed a more complete system of evaluating whether the structure and operation of student training in CATO offices was being carried out in accordance with the new policies. The review of three PI files indicated the new forms and questionnaires are being completed conscientiously and reviewed by the inspector including recommendations regarding whether the CATO should continue to train students and, how many.

POTENTIAL RISK AND POSSIBLE IMPACT

1. Inadequate Training of PI staff in competency systems resulting in inappropriate assessment of CATO in PIs possibly making the competency system related to practice experience ineffective
2. Unqualified training principals in CATOs resulting in ineffective oversight of students
3. Collusion between student and training principals/counsellors to misrepresent hours attained by type and/or in total

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

1. Relevant by-laws and policies
2. Record of CA Qualifying Experience (RQE)
3. Guide to CA Practical Experience Requirements
4. Practice Inspection Manual
5. Review PI process for Approving CATOs and re-approval as a result of practice inspection including number of students allowed
6. Review of training of practice inspectors re practical experience duties

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

4.B PAC Standard 4 Pre-licensing Experience Requirements and Standard 5 Approved Training Offices

COMMENTARY

Although the ICAO moved to the competency approach in 2004, its only method of ensuring that sufficient and appropriate competencies were covered during the work experience period was by means of ascribing minimum hours in certain competency areas, as well as requiring a minimum mix of client tasks. The ICAO has now moved further in terms of ensuring appropriate work experience competency learning and application by changing -- and increasing -- the requirements made of CATOs.

At the core is a mandatory self-development, mentoring and assessment process built around the creation of the RQE. The student chooses a selection of competencies as follows: (1) "Depth of Experience" major competency area for which experience must be gained in all the competencies and being either Assurance or Performance Measurement (but not both), and (2) "Breadth of Experience" major competency areas for which experience must be gained in half of the competencies, including all the remaining major competency areas.

To assist in the process, a new CA Training Program, including two new required positions, now must be provided by all CATOs. The two new positions are the *CA Training Principal*, who is responsible for the CA Training Program, and the *Counselling Member*, who both mentors the student and signs off on the RQE, which contains the student's self-assessed level of competency development across all the competencies that were chosen at the beginning of the development period.

POTENTIAL RISK AND POSSIBLE IMPACT

High - There are multiple risks and, collectively, their impact can be high in terms of producing candidates whose work experience does not properly prepare them for entry-level LPA work.

- Allowing public accounting students to choose to name one of the two core areas of Assurance and Performance Measurement as a "breadth" area, which cuts in half the number of required competencies to master in that *core* 'breadth' area
- Inappropriate choice of competency combinations by the student and mentor

- Even if a student is careful, and assertive, it may be that she or he will not receive adequate exposure to the competencies required by the student's development plan if audit planning and assignments don't work out
- Inaccurate self-assessment of competency level achieved by student
- Inadequate selection criteria and training of both the CA Training Principal and the Counselling Member
- While the Counselling Member signs the RQE he or she only attests to a meeting with the CA student and a discussion of the student's competency development and progression. There is no requirement at all to attest to whether the student has achieved mastery of the competency to the level expected of an entry LPA.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

A review of two documents: "CA Practical Experience Requirements", which includes a copy of the RQE, and "Guide to CA Practical Experience Requirements". Also any related to ICAO legislation.

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

5.A PAC Standard 5 Approved Training Offices

COMMENTARY

Council Standard 5 is elaborated on in the PAC Handbook, Part II, which is a very detailed list of requirements to be met by CATOs. Even a cursory reading of the CA Practical Experience Requirements shows that there have been many departures from the PAC Handbook. Some of them may be simple wording changes which can be determined to substantially mean what is in the Handbook, Part II. However there is sufficient change that a careful reading and comparison of the ICAO's new approach to work experience to ensure that it remains substantially equivalent to the Handbook, Part II. One example of an apparently significant deviation is commented on above, which is the requirement that CA students do not have to have the depth of development in the two Core Competency areas that the Handbook, Part II requires.

POTENTIAL RISK AND POSSIBLE IMPACT

Moderate to High - The new ICAO approach to competency-development through work experience runs a moderate to high risk of not preparing licensing candidates to the level expressed by the Council standards or expected by the public.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

While this risk is something of an extension of the risks stated in 1, above, it really is based on whether the work experience requirements now promulgated by the ICAO are substantially equivalent to the intent expressed by Standard 5 and the PAC Handbook, Part II on an overall basis. It is a straightforward matter of comparing the ICAO and PAC documents.

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

5.B PAC Standard 5 Approved Training Offices

COMMENTARY

The ICAO now mandates that all CATOs provide students with a CA Training Program developed specifically for CA students and approved by the ICAO, with certain specified requirements regarding the process and content of the training. This is the backbone of the new approach to work-experience competency development, and thus becomes something that must meet all of the ICAO requirements, with careful monitoring by the ICAO. That being said, even if the CATO meets all of the ICAO requirements it still may not meet all PAC requirements.

POTENTIAL RISK AND POSSIBLE IMPACT

Moderate to High - If the Training Programs, and the people who deliver them, do not meet ICAO requirements then students not otherwise examined on work experiences may be presented to the licensing examination inadequately prepared (and they are not otherwise examined, as noted above in 1 with regard to RQEs).

Continuing assessment of the Training Program will presumably be done by means of PI. Practice Inspectors already have a lot of demands placed on them in terms of the knowledge and experience that they must have, and this adds another burden, since the training process requires its own special knowledge and experience.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

The ICAO has provided a companion document to the CA Practical Experience Requirements that is entitled "Guide to CA Practical Experience Requirements", and is intended "to help CATOs understand and apply the profession's requirements". This will be reviewed to see what is expected.

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

6.A PAC Standard 6 Examinations used for licensing public accountants

COMMENTARY

An ADB is required to set exams that require students to demonstrate their acquisition of competencies and capabilities to practise public accounting at entry level as prescribed in the PAC Handbook (*Standard 6(1) from "Standards of the Public Accountants Council of the Province of Ontario", April 20, 2006*). Standard 6(2) further requires that the exams be rigorous, fair, equitable, valid and reliable. As appropriate, exams must also demonstrate application and integration of knowledge.

A high-quality examination program is a critical part of demonstrating competencies and capabilities. Demonstration takes place at three times. First, the student demonstrates their contemporaneous mastery of the requisite knowledge needed to enter the ICAO post-university professional program by successfully passing the CKE. This constitutes a confirmation that the post-secondary education

requirements of Council Standard 2 are fully satisfied, enabling the student to benefit from the professional education governed by Standard 3.

At the end of the SOA professional program, the student demonstrates integration of content on the SOA. The final demonstration of readiness for independent practice is the UFE of the Canadian Institute of Chartered Accountants (“CICA”). In order for these exams to fulfill their role, they must be properly developed and administered. In addition, the reliability of scores and pass/fail decisions is critical for demonstrating competence, as are clear linkages between the exams and the capabilities and competencies they aim to demonstrate.

POTENTIAL RISKS AND POSSIBLE IMPACT / CONCLUSIONS AND OBSERVATIONS

Topic 6.A

Potential Risks and Possible Impact

Reliability of pass-fail decisions is not documented to the level of ‘best practices’ for CKE, SOA or UFE exams. Insufficient reliability of pass-fail decisions can lead to licensing of a few below standard candidates and/or denial of licensure to qualified candidates.

Conclusions and Observations

Analysis is unchanged from past years. Analysis meets minimum standards but it is far from what is possible or best practice, especially for the CKE. There is no calculation of reliability or internal consistency measures like Coefficient Alpha (for example, in multiple choice questions when students are asked to choose a correct answer from 4 different and nonparallel choices). Please refer to the example set out on Page 17.

Topic 6.B

Potential Risks and Possible Impact

There is no statistical equating of CKE scores from year-to-year but rather the process relies completely on judgment. If the equating is not sufficiently matched, there is a fairness risk that the same quality of candidate will not consistently pass or fail from one year to the next.

Conclusions and Observations

Substantial Compliance

- Explicit equating of CKE exam items is used to help maintain fairness. This is a major improvement in ensuring fairness and represents best practice.
- Despite better equating on the CKE, there has been a decline in the proportion of students going from CKE to UFE on First Time Write (FTW). The decline happens between the CKE and SOA. The SOA to UFE flow-through is steady. The CKE has a steady pass rate consistent with equating practices. This suggests potential problems with the SOA scoring, but that is outside the scope of this review and not an essential element in judging compliance.

Topic 6.C

Potential Risks and Possible Impact

The validity evidence for the CKE has largely been limited to the validity of its content. If validity is not extended to include the predictive validity of the exam (typically, someone who succeeds on the exam provably succeeds on the job and vice versa), there is a risk of having an exam that does not adequately screen entrants to the professional program.

Conclusions and Observations

Substantial Compliance

Performance statistics indicate that in aggregate, “A” students in undergraduate accounting programs perform better than “B” students, but this analysis is simplistic. Despite the fact that the evidence is available, there is no assessment of validity using correlation methods (validity coefficients) to judge the performance on the CKE compared to the student’s GPA, or looking forward, compared to performance on the UFE. To our knowledge, there is also no formal assessment of content validity or any factor analysis to confirm the plausibility of the content structure. The analysis provided by the ICAO meets minimum standards for assessing validity, but falls short of best practice.

Topic 6.D

Potential Risks and Possible Impact

Candidates on the SOA and UFE are not fully informed about the meaning of their exam performance and how to make best use of the information. The result is that the diagnostic aims of the SOA may not be adequately fulfilled and that students who fail the exam will not take appropriate remedial action in response to their performance.

Conclusions and Observations

Substantial Compliance

- UFE letters provide basic diagnostic information for an unsuccessful candidate. Those wanting better information can pay for a Performance Analysis Report. This is a highly individualized and comprehensive diagnostic report that meets all standards. (Source: 2012 UFE Unsuccessful Candidate Letter and Sample PAR at: [http://www.icao.on.ca/CAstudents/UniformEvaluation\(UFE\)/UFEReviews/1014page12325.pdf](http://www.icao.on.ca/CAstudents/UniformEvaluation(UFE)/UFEReviews/1014page12325.pdf))
- SOA letters to unsuccessful candidates provide good information about performance in each area covered by the exam. No diagnostic commentary is offered to guide the student for improvement, but the details on performance should make such commentary unnecessary. Practice meets standards. (Source: 2012 SOA detailed results letter).

Topic 6.E

Potential Risks and Possible Impact

Some questions on the CKE made use of multiple choice formats which are known to create an unintentional bias in exam scoring, thereby disadvantaging candidates who did not grow up speaking English. This includes the use of: (a) “not” in question stems; as well as (b) items that require candidates

to review a list of possible answers and select the combination of correct answers that is best. Continued use of these kinds of questions creates a risk that the exam is not equitable.

Conclusions and Observations

Substantial Compliance

Reviewed all questions on the two 2012 CKE exams. Negative stems/items ran high at 9-10% on the May 2012 CKE. This is at the very edge of acceptability. The January 2012 CKE at 5% negative items was well-controlled.

- The biggest problem is the use of non-parallel answer options, often with unfocused item stems. Very often the question is vague and the answers deal with 2-4 thinly related topics. This practice is typical when item writers are trying to cover more competencies with fewer questions. Some 15-20% of items are suffering from this problem.
- About 35-40% of Assurance items have flaws.
- The full set of issues is documented in a table on page 17 of this report. The exact items with each fault have been identified in test booklets left with the ICAO.
- In our view, keener scrutiny of the structure of exam items is needed to eliminate the observed flaws. There is a risk that the CKE exams may disadvantage students who did not grow up speaking English. It is our sense that the quality of items has declined since our last review, but our last review was less formal than this one so comparable evidence is not available. Regardless of the comparison, there are real problems with the CKE questions. While the faults are not so egregious as to render the exams invalid, we would not accept many of these items had they been submitted by a new ADB applicant. A review by a Psychometrician with expertise in item construction should be introduced in the future. We suggest engaging an expert in item development, such as Dr. David DiBattista at Brock University.

Topic 6.F

Potential Risks and Possible Impact

Case-based exams like the SOA and UFE can only cover a small portion of the competencies and capabilities that candidates need to demonstrate. To ensure the exams are fulfilling their role in fostering competency in all areas, there is a need to ensure that the most significant areas of competency are assessed over a five-year span. In the absence of verification like this, the exam may eventually deviate from the competency requirements of the Council.

Conclusions and Observations

Substantial Compliance

The team members working on professional education standards have reviewed the exam contents and deemed them sufficient to meet standards.

Topic 6.G

Potential Risks and Possible Impact. This is a new issue arising from this Triennial evaluation. The validity evidence for the UFE has largely been limited to the validity of its content. If validity is not extended to include the predictive validity of the exam (typically, someone who succeeds on the exam

provably succeeds on the job and vice versa), there is a risk of having an exam that does not adequately screen entrants to the professional program.

Conclusions and Observations

Substantial Compliance

- Appendix H2C of the UFE (*Source: Training out of External Audit*) shows that in 2012, non-public accounting candidates significantly outperformed public accounting candidates on the core performance areas of Assurance and Performance Measurement. This led to concerns about the validity of the exam.
- A further check on the 2011 statistics does not show the same concern.
- Additional evidence shows that if candidates with the same GPA (A or B) are compared for public accounting versus non-public-accounting, the pass rates of those with the same GPA are comparable.
- The reason for the lower 2012 scores among public accounting candidates was first suggested by our two academic team members. They observed that the best students were increasingly deciding not to pursue public accounting. This trend was then confirmed in ICAO statistics, which showed that the proportion of “A” students among public accounting candidates had declined by 2%, while the proportion among non-public accounting candidates had risen. (See Page 8 under evaluation of Standard 3)
- While this trend allays our concerns about the validity of the exam, it raises other questions about the future quality of LPAs.

OVER-ALL CONCLUSION AND OBSERVATIONS

D. Over-all Conclusion and Observations

The ICAO is in substantial compliance with Standard 6 based on previously identified risks. Nonetheless, there is room for substantial improvement in the creation of multiple-choice items and in assessments of exam reliability and validity. There is also an early indication that the quality of LPA candidates may be declining and this is identified a potential source of risk for audit quality in the future.

Materials Reviewed

- Letters to candidates (2012): CKE; SOA; and UFE
- CKE Flow through reports: 2009-2012
- Board of Examiners Reports: UFE (2010-12); CKE (2012M); CARE (2012) and SOA (2012)
- CKE Exam Questions: January and May 2012
- Performance Statistics – CKE: January & May 2010-2012
- Performance Statistics – UFE: 2010-2012
- External audit GPA: 2011-2012

Discussions: Jacqui Mulligan; Brian Leader

Review of 2012 CKE Exams – Problems Noted with Exam Items
 (Note: Grey row indicates “Not assessed”)

Item Deficiencies – January 2012 CKE Exam							
Domain	GSRM	TAX	ASSURANCE	PMR	FIN	MDM	TOTAL
# Items	5	15	30	25	10	15	100
1.Avoid Unfocused Item Stems							0
2.Assess the Proper Cognitive Level							0
3.Avoid Negative Item Stems	1		4				5
4.Use Complex Multiple-Choice Test Items with Discretion		2				2	4
5.Ensure Grammatical Congruence Between Item Stem and Answer Options			2				2
6.Avoid Subjectivity			1				1
7.Avoid Qualifiers and Specific Determiners							0
8.Ensure that the Content of Test Items is Current							0
9.Avoid Humor							0
10.Avoid Stereotypical Descriptions							0
11.Avoid Analogies, Metaphors, Colloquialisms and Regional Expressions							0
12.Ensure that Distractors are Plausible (to the Unqualified), yet Clearly Incorrect (to the Qualified)							0
13.Make all Answer Options Homogenous (Parallel)	1	2	6	1.5	2	3	15.5
14.Use Jargon and Acronyms Only When Universally Recognized		1.5	1	1			3.5
15.Avoid Overlapping Answer Options		2	1				3
16.Other issues, not already mentioned	1				1		2
# Items with flaws	2	4.5	11	2.5	2	4	26

Item Deficiencies – May 2012 CKE Exam							
Domain	GSRM	MDM	ASSURANCE	TAX	FIN	PMR	TOTAL
# Items	5	15	30	15	10	25	100
1.Avoid Unfocused Item Stems							5
2.Assess the Proper Cognitive Level		1	2	1	1		0
3.Avoid Negative Item Stems		2	1	3	3.5		10
4.Use Complex Multiple-Choice Test Items with Discretion						1	1
5.Ensure Grammatical Congruence Between Item Stem and Answer Options			2	1		1	4
6.Avoid Subjectivity							0
7.Avoid Qualifiers and Specific Determiners	1		1				2
8.Ensure that the Content of Test Items is Current							0
9.Avoid Humor							0
10.Avoid Stereotypical Descriptions							0
11.Avoid Analogies, Metaphors, Colloquialisms and Regional Expressions							0
12.Ensure that Distractors are Plausible (to the Unqualified), yet Clearly Incorrect (to the Qualified)							0
13.Make all Answer Options Homogenous (Parallel)	2	4	8	1.0		2	17.0
14.Use Jargon and Acronyms Only When Universally Recognized				2.5	1		3.5
15.Avoid Overlapping Answer Options		1				2	3
# Items with flaws	3	4	12	4	2.5	5	30.5

7.A PAC Standard 7A – Licensing of persons admitted to membership from an affiliated provincial accounting body

COMMENTARY

Pursuant to Standard 7A, notwithstanding the requirements of Standards 2 through 6, an ADB shall grant a licence to any member who is an extra-provincial applicant and who applies for a licence without requiring any material additional training, experience, examinations or assessments provided that, prior to granting a new licence, the ADB has received confirmation that the member, at the time of application to the ADB for the granting of a licence, is in good standing with the other affiliated provincial accounting body.

POTENTIAL RISK AND POSSIBLE IMPACT

Moderate - There are possible risks in the intake and application review process that an applicant from an accounting body in another jurisdiction in Canada that is seeking licensure by the ICAO may not have satisfied PAC Standard 7A(1)(a) and (b).

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Review any changes, since October 31, 2009, to the policies and procedures established by the ICAO for assessing an applicant from an accounting body in another jurisdiction in Canada for licensure.

Obtain statistics of the number of applicants that applied for licensure from another jurisdiction/accounting body in Canada and whether licensure was granted by the ICAO since October 31, 2009. Reviewed applicant files (3) – from initial application, including all correspondence with the other Canadian accounting body and final decision.

Additional inquiries were made to the Director of Admissions, Memberships and Licensing (Robert Gubbins, MA, LLB.)

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

7.B PAC Standard 7B(6) – Licensing of persons admitted to membership from accounting bodies outside of Canada

COMMENTARY

Pursuant to Standard 7B(6), the ICAO has been granted an exemption from having to implement additional by-laws or regulations or policies, beyond the policies and procedures that existed on June 9, 2004, and from having to seek PAC approval in respect of any assessments already made of any accounting bodies in other countries. Furthermore, all determinations the ICAO made regarding other accounting bodies, all Mutual Recognition Agreements (“MRAs”) with accounting bodies outside Canada and all policies and procedures and reciprocity examinations in respect of accounting bodies outside Canada are continued.

POTENTIAL RISK AND POSSIBLE IMPACT

Low - Given that the policies and procedures that existed on June 9, 2004 for assessing the standards of accounting bodies in other countries (including any mutual recognition agreements) are deemed to continue, there is low risk associated to the ICAO licensing an applicant from an accounting body in another jurisdiction outside of Canada.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Review any changes, since October 31, 2009, to the policies and procedures established by the ICAO for assessing an applicant from an accounting body outside of Canada for licensure.

In particular, review any changes to, or any new, mutual recognition agreements.

Obtain statistics of the number of applicants that applied for licensure from another jurisdiction/accounting body outside Canada and whether licensure was granted by the ICAO since October 31, 2009.

Additional inquiries were made to the Director of Admissions, Memberships and Licensing (Robert Gubbins, MA, LLB).

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

7.C PAC Standard 7C – Designating a new authorized designated body for licensing

COMMENTARY

Pursuant to Standard 7C, an ADB shall grant a licence to any member in good standing who is also a member in good standing of another ADB and who holds a licence granted by that ADB in accordance with the terms of Standard 7C(3).

POTENTIAL RISK AND POSSIBLE IMPACT

Moderate - There are possible risks in the intake and application review process that a member may not satisfy the requirements of Standard 7C (3), including confirming that the member is licensed by the other ADB, is compliant with all continuing professional development requirements, confirming the date of the member's last successful practice inspection and confirming that the member is not the subject of disciplinary proceedings.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Review any changes, since October 31, 2009, to the policies and procedures established by the ICAO for assessing an applicant from an accounting body in another jurisdiction in Canada for licensure.

Obtain statistics of the number of applicants that applied for licensure from another jurisdiction/accounting body in Canada and whether licensure was granted by the ICAO since October 31, 2009.

Additional inquiries were made to the Director of Admissions, Memberships and Licensing (Robert Gubbins, MA, LLB).

CONCLUSIONS AND OBSERVATIONS

The ICAO is in substantial compliance with Standard 7C.

8.A PAC Standard 8 – Involvement in Public Accounting in a Substantive Way

COMMENTARY

Council Guideline 2007-3 established criteria for assessing and quantifying whether applicants for renewal of a licence were involved in the practice of public accounting in a substantive way. At the time of renewal in ICAO, the applicant must assert whether they have met the criteria. During the PI process they are required to submit specific information on their involvement, hours by category etc. The PI reviews this detail as part of the inspection. The review of 4 exception files in 2012 indicated that the ICAO was using its discretion to issue a licence without completely meeting the standard, was being exercised conscientiously.

POTENTIAL RISK AND POSSIBLE IMPACT

The system depends in part on the understanding and honesty of the LPA making the assertion regarding compliance as part of license renewal. The process depends on the ability of the PI to assess the submitted evidence during practice inspection.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Information supplied to licensees regarding the guideline

PI manual sections on review of detailed submissions by licenses regarding compliance

Discussion with PI staff regarding their experience in this regard

Review of PI files to examine license submissions and evidence of PI review.

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

8.B PAC Standard 8 - Continuing Professional Development (CPD)

COMMENTARY

The core of the CPD program is a minimum of 20 hours annually and 120 hours over a 3 year period. Of these, 50% must be verifiable. Failure to comply can lead to a discipline process. ICAO provides a wide variety of seminars and webinars and CICA provides courses and in depth programs involving at home and in residence study sessions. In addition the LPA may obtain CPD elsewhere so long as it may be demonstrated to relate to his or her professional practice. The requirements comply with IFAC rules. Based on practice inspection file reviews and license renewal reviews there is no problem.

POTENTIAL RISK AND POSSIBLE IMPACT

1. The quality of teachers and courses may not be adequate
2. The range of CPD offered may not be adequate
3. The reporting of CPD hours may not be accurate or may be misrepresented
4. The verification by practice inspectors may not be sufficiently extensive

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

1. Obtain documents on the CPD course development and leader qualification process
2. PI Inspection Manual re: process of review by PIs
3. Enquire as to the frequency of evidence NOT supporting reported claim by the LPA

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

9. PAC Standard 9 - Practice Inspection

COMMENTARY

A high quality PI program is a central element of the governance of licensed members of the ADB in the public interest. The hiring, training and supervision of an adequate number of inspectors is critical to the enforcement of standards on student attainment of sufficient appropriate practical experience and attainment of appropriate competencies, the monitoring of the quality of client work in the performance measurement and assurance areas, the maintenance of ethical rules, CPD requirement, and hours of involvement required to retain a license. After discussion with the director of the PI program and the detailed review of 3 PI files no compliance problems are indicated.

POTENTIAL RISK AND POSSIBLE IMPACT

Including some aspects of Standards 4 and 8, as well as 9.

1. Qualification of Inspectors
2. Sufficient number of inspectors
3. Training of Inspectors
4. Oversight of Inspectors

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

1. PI by-laws, policies training materials and PI Manual
2. Discussion with PI senior staff regarding recruitment, training and supervision of PIs

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

10. PAC Standard 10 - GAAP/GAAS

COMMENTARY

An ADB shall require every licensee, partnership or professional corporation to use the generally accepted accounting principles and generally accepted assurance standards set out in the *CICA Handbook – Accounting* and the *CICA Handbook – Assurance* as the same are amended from time to time, in accordance with the generally accepted standards of practice of the public accounting profession.

It is now possible for public companies to early-adopt IFRS or for any other entity to early adopt IFRS or GAAP for Private Enterprises.

In addition – on GAAS – ISQC 1 became effective on Dec 15, 2009, by which time, Firm’s QC systems had to be compliant. Audits of F/S for periods ending on or after Dec 15, 2010 will require the auditor to apply CAS.

The apparent compliance of ICAO licensees with CPD requirements and the review of PI files indicate that the level of compliance with GAAP and CAS by ICAO LPA holders is high and enforced.

POTENTIAL RISK AND POSSIBLE IMPACT

That CPD is not available or accessible or of inadequate quality for practitioners with early- adopting clients to be prepared or for auditors regarding CAS.

That Practice Inspectors (and Practice Advisors) are not adequately trained to carry out their responsibilities where files or queries involve either of these new GAAP variants and, in the case of PIs, that they will not have the tools in the form of guides and checklists to inspect files using new forms of GAAP or for the new CAS.

There are extra requirements, prohibitions and options available to entities adopting IFRS (IFRS 1) or GAAP for PEs (Section 1500). There is a risk these will not be adequately understood by DB PIs and Practice Advisors.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

1. PI Manual and policies including training and operating manuals on GAAP transitions
2. Current CPD offerings by seminar, webinar publications and residence courses
3. See CICA and ICAO websites for information on preparation for these transitions

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

11. PAC Standard 11 – Rules of Professional Conduct

COMMENTARY

Pursuant to Standard 11, an ADB is required to implement rules of professional conduct that require licensees and students to, among other things, conduct themselves in a manner that maintains the good reputation of public accountants, that ensures that professional services are performed with integrity and due care, that requires licensees and students to sustain their professional competence, remain objective, hold information confidential, interact with colleagues with due care and ensures that accounting services are performed in accordance with generally accepted standards.

POTENTIAL RISK AND POSSIBLE IMPACT

Low - In light of efforts to harmonize Rules of Professional Conduct among the ICAO, the Certified General Accountants of Ontario (“CGAO”) and the Certified Management Accountants of Ontario (“CMAO”) within the context of the PAC Standards and the reporting obligations under the *Operating Procedures Relating to an Authorized Designated Body’s Compliance with the Council’s Standards*, the potential risk of non-compliance with the applicable PAC Standards is low.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Review all amendments to the Rules of Professional Conduct, as passed at ICAO’s meetings, since October 31, 2009 and any related ICAO Council Interpretations.

Confirm that all amendments relating to the practice of public accounting were submitted to PAC prior to being introduced, amended or repealed in accordance with PAC Standard 11(5).

Confirm that all PAC-requested amendments were implemented in accordance with PAC Standard 11(6).

Additional inquiries were made to in-house counsel regarding rule amendments.

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

12. PAC Standard 12(1) - Investigation of Complaints

COMMENTARY

Standard 12(1) requires all ADBs to establish a process for the investigation of all complaints against a licensee or partnership. All such complaints shall be investigated until it has been determined whether or not to refer a charge or charges of professional misconduct to the ADB's adjudicative committee.

POTENTIAL RISK AND POSSIBLE IMPACT

Moderate - The possible impact of the professional conduct committee not adequately investigating complaints is potentially significant. Indeed, failure to do so, would call into question the validity of the complaints and disciplinary process.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Review all applicable bylaw amendments, as passed at ICAO meetings, since October 31, 2009. Review any amendments to the professional conduct committee rosters and handbook since November 1, 2009.

Reviewed a sample of investigative files (55) where: (1) a charge has been referred to the discipline committee; (2) the licensee has been admonished; and (2) the complaint has been dismissed.

CONCLUSIONS AND OBSERVATIONS

The ICAO is in substantial compliance with Standard 12(1).

It should be noted that with the coming into force of the *Chartered Accountants Act, 2010*, the ICAO undertook a complete review of its bylaws, regulations and policies. All changes applicable to the practice of public accounting were submitted to PAC for approval prior to implementation by the ICAO in accordance with the *Operating Procedures Relating to an Authorized Designated Body's Compliance with the Council's Standards*.

Following a review of sample investigative files and standard form investigator appointment form letters (together with similar form letters used in the appointment of practice inspectors for Standard 9), it is confirmed that the ICAO is complying with the undertaking given at the conclusion of the triennial review for the period ending October 31, 2009 whereby the ICAO undertook to caution members that documents contained in their files that are subject to legal privilege need not be produced to the ICAO.

13. PAC Standards 13-14, in particular, Standards 13(1) and 14(1) – Statutory Powers Procedure Act (“SPPA”) Compliance

COMMENTARY

Standards 13(1) and 14(1) require that the adjudication of charges of professional misconduct, and any appeals therefrom, be conducted in accordance with the SPPA.

POTENTIAL RISK AND POSSIBLE IMPACT

High - The possible impact of the discipline committee and/or the appeal committee not being SPPA compliant is significant – failure to follow principles of fairness and due process would bring the disciplinary process into disrepute and would render any decisions of the applicable tribunals ripe for judicial intervention through any subsequent judicial review application.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Review all bylaw amendments, as passed at ICAO meetings, since October 31, 2009.

Review any amendments to the discipline committee’s and appeal committee’s rosters and terms of reference since October 31, 2009.

Review a sample of hearing files (22) – from their referral to the discipline committee to the final decision by the appeal committee (and any subsequent determination by the Divisional Court, where applicable).

Additional inquiries of in-house counsel (re: hearing files, bylaw amendments, etc.) were made.

CONCLUSIONS AND OBSERVATIONS

The ICAO is in substantial compliance with Standards 13(1) and 14(1).

During our review of a particular discipline case file, we noted a July 14, 2010 letter from Alexandra Hersak, counsel to the Professional Conduct Committee, to Elizabeth Cowie, Director of Legal and Regulatory Affairs, expressing concern over the length of time that the Discipline Committee Reasons had been under reserve. The Discipline Committee reached a decision on December 16, 2009, however, as of July 14, 2010, the Discipline Committee’s reasons for decision had not yet been rendered. In her letter, Ms. Hersak stated that:

The Professional Conduct Committee is concerned that (Mr. Levine) is not receiving the benefit of the rehabilitative elements of the sanction, and that as there will be no publicity until such time as the Reasons are issued, public protection is also an issue.

We would appreciate hearing from the ICAO with respect to the status of the Reasons.

While Ms. Hersak indicated that she did not receive a response to her letter, the Discipline Committee reasons were released on October 18, 2010.

Fairness, transparency and due process require that reasons for decision be provided in a timely way. In addition, in order for the public to be protected, publicity should occur in a timely way. The above-noted delay appeared to be an isolated incident. However, in future, the Discipline Committee should make every effort to release its reasons for decision in a timely way.

14. PAC Standard 15 – Issuing a New License to a Former Licensee

COMMENTARY

Standard 15 provides rules for ADBs regarding the issuance of a new licence to a former licensee. In particular, Standard 15 set conditions surrounding the issuance of a new licence to a former licensee who has not satisfied the continuing professional development requirements, or who has not practised public accounting in the past 5 years as required by Standard 7A. Furthermore, Standard 15 places restrictions around the issuance of a new licence to a former licensee whose licence was revoked by an adjudicative or appeal committee of the ADB. Finally, Standard 15 provides that an ADB shall prohibit the issuance of a new licence to a member of the ADB if the member held a licence issued by another ADB and such licence was suspended or revoked and not reinstated by the other ADB.

POTENTIAL RISK AND POSSIBLE IMPACT

Moderate - There are possible risks in the intake and application review process when an applicant who has previously qualified, but never applied for a licence or who has allowed their licence to lapse, or who had their licence revoked applies for licensure.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Review all bylaw amendments, as passed at ICAO meetings, since October 31, 2009.

Obtain statistics of number of applicants who applied for a licence who: (1) previously qualified but never applied for a licence; (2) allowed his/her licence to lapse; and (3) who had his/her licence revoked since October 31, 2009. Obtain statistics of how many of the above-noted applicants were granted a licence since October 31, 2009.

Reviewed sample applications/file (4) from former licensees seeking to be re-licensed and their treatment by the Membership Committee and/or the Public Accounting Licensing Committee. Our review included one application from a former licensee that had his licence revoked by the ICAO's Discipline Committee.

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

15. PAC Standard 16 - Mandatory Liability Insurance

COMMENTARY

- (1) An ADB shall require all licensees to maintain, and provide satisfactory proof of maintaining, professional liability insurance coverage.
- (2) The ADB requirements for insurance shall include:
 - (a) Minimum coverage limits per claim and, in aggregate per policy period;
 - (b) maximum allowable deductibles; and
 - (c) the minimum period for which insurance is to be maintained after a licensee retires or leaves practice.

- (3) In setting requirements for insurance, the ADB must consider and address, to the extent possible:
- (a) different levels of risk based on practice size, number of principals, or other similar factors;
 - (b) the magnitude of claims reasonably anticipated to arise; and
 - (c) the coverage reasonably available in the marketplace.
- (4) The ADB may, as an exception, permit self-insurance in cases where sufficient professional liability coverage is not reasonably available in the marketplace due to the size of the firm or practice and its risk exposure. Such an exception may be permitted only on the condition that the firm or practice set aside assets at least equal in value to the self-insured amount.
- (5) An ADB shall specify in its bylaws or regulations or policies the adverse consequences arising for a licensee, partnership or professional corporation who fails to comply with the mandatory professional liability insurance requirement or to report such compliance to the authorized designated body, which consequences shall include the suspension or revocation of a licence or authorization to practice public accounting, as applicable.

ICAO Regulation 4-4 which was adopted by the ICAO on June 16, 2011 to implement the Standard.

POTENTIAL RISK AND POSSIBLE IMPACT

The principal means of ensuring this standard is effectively enforced is:

1. Practitioners insured through AICA Services are reported to ICAO directly by AICA
2. All licensees affirm that they are meeting the standard

Key risk is that those monitored only by affirmation may be uninsured or under insured potentially to the detriment of the public where losses occur resulting from negligence on the part of the LPA.

A risk exists that the limits and deductibles may be set inappropriately by ICAO.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Documentation on the process by which limits and deductibles are set

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

The review of PI files indicated in all cases that the licensees carried insurance coverage with terms compliant with PAC standards.

16.A Standard 17(5) – Licence Application

COMMENTARY

Pursuant to Standard 17(5), an ADB is required to prepare an application form for a public accounting licence that includes all matters necessary to determine whether the applicant satisfies Standards 2 – 6. Furthermore, the application form(s) must include a section to be completed regarding an applicant's

character references and a declaration by the applicant that the contents of the application are true and correct.

POTENTIAL RISK AND POSSIBLE IMPACT

Moderate - The possible impact of not implementing a detailed application form for a public accounting licence is that the various PAC requirements (Standards 2 through 6) could be missed/overlooked.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Review all standard form public accounting licence applications and rosters for the Applications Committee, Membership Committee and the Public Accounting Licensing Committee, including any changes to the documents since October 31, 2009.

Additional inquiries were made to the Director of Admissions, Memberships and Licensing (Robert Gubbins, MA, LLB).

CONCLUSIONS AND OBSERVATIONS

The ICAO is in substantial compliance with Standard 17(5)

16.B PAC Standards 17(9) and 17(10) – Reporting re: LPA Roll and Licensure Activities

COMMENTARY

Pursuant to Standards 17(9) and 17(10), an ADB is required to publish a roll of licensed public accountants on its website and shall provide such information to PAC. Furthermore, an ADB is required to publish an annual report on its licensure activities on its website.

POTENTIAL RISK AND POSSIBLE IMPACT

Low - The possible impact of providing inadequate disclosure or of failing to file the necessary reports as required pursuant to the Standards is a lack of transparency and possible non-compliance with the PAC Standards. While the risk associated with such an impact would otherwise be “high”, because said disclosure is regularly provided to PAC, there is already some level of oversight/monitoring taking place.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Review system by which the roll of licensed public accountants is provided to PAC.

Review all annual reports for details re: licensure activities as provided to PAC since October 31, 2009.

Additional inquiries were made to the Director of Admissions, Memberships and Licensing (Robert Gubbins, MA, LLB).

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance

17.A PAC Standard 18(1) – Ongoing Compliance with the PAC Standards

COMMENTARY

Standard 18(1) requires an ADB to maintain sufficient and appropriate documentation to support its ongoing compliance with the Standards. Such documentation is required to be made available to PAC upon request as part of PAC’s initial, periodic and special reviews.

POTENTIAL RISK AND POSSIBLE IMPACT

Low - In light of the ICAO’s representation during the initial review that it maintains all records indefinitely, there is low risk that the ICAO does not have sufficient and appropriate documentation to support its ongoing compliance with the PAC Standards.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Review all annual and supplemental reports filed with the Minister and PAC since October 31, 2009 (to ensure compliance with the information requirements as provided pursuant to Standard 18(6)).

Additional inquiries were made to the Director of Admissions, Memberships and Licensing (Robert Gubbins, MA, LLB).

CONCLUSIONS AND OBSERVATIONS

The ICAO is in substantial compliance with Standard 18(1).

17.B Standards 18(5) and 18(6) – Filing of Annual and Supplemental Reports with the Minister and PAC

COMMENTARY

Pursuant to Standards 18(5) and 18(6), an ADB is required to publish an annual report on its licensure activities on its website. Furthermore, an ADB is required to prepare a supplemental report as at and for each 12-month period ended October 31 and file the same with PAC on or before January 1 in each year. The purpose of the report is to detail all manner of licensing activities by the ADB including number of licensees, number of suspensions, revocations, disciplinary hearings, etc. The ADB is required to make such reports available on its website.

POTENTIAL RISK AND POSSIBLE IMPACT

Low - The possible impact of providing inadequate disclosure or of failing to file the necessary reports as required pursuant to the Standards is a lack of transparency and possible non-compliance with the PAC Standards. While the risk associated with such an impact would otherwise be “high”, because said disclosure is provided to PAC annually, there is already some level of oversight/monitoring taking place.

ADB DOCUMENTATION REQUIRED FOR ASSESSMENT OF RISK

Review all annual and supplemental reports filed with the Minister and PAC since October 31, 2009 (to ensure compliance with the information requirements as provided pursuant to Standard 18(6)).

Additional inquiries were made to the Director of Admissions, Memberships and Licensing (Robert Gubbins, MA, LLB).

CONCLUSIONS AND OBSERVATIONS

Substantial Compliance