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All Chartered Accountants performing IFA engagements commencing on or after March 1, 2007 will be required to follow these Standard Practices.

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# MANAGING THE RISK OF FRAUD

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## STANDARD PRACTICES FOR INVESTIGATIVE AND FORENSIC ACCOUNTING ENGAGEMENTS

In November 2006, the Canadian Institute of Chartered Accountants issued a set of standards pertaining to the practice of forensic accounting in Canada. This newsletter will highlight some of the standards contained therein. However, any Chartered Accountant engaged to provide a report in connection with a forensic engagement is advised to read the standards in their entirety.

### Background

As the need for specialized accounting assistance in connection with litigation matters escalated during the 1980's and into the 1990's, Chartered Accountants were called upon to provide this expertise.

During the 1990's many of these CAs formed an alliance to assist each other with the exchange of information and knowledge.

By 1998, The Canadian Institute of Chartered Accountants (CICA) established the Alliance for Excellence in Investigative and Forensic Accounting (IFA Alliance) to implement a specialist certification program for Chartered Accountants practicing in investigative and forensic accounting (CA•IFA).

The primary purpose of these Standard

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### The Standards

The standards are codified into seven sections:

- 100 Introduction, definition & applicability of IFA
- 200 Engagement acceptance
- 300 Planning & scope of work
- 400 Information collection & analysis
- 500 File documentation
- 600 Reporting
- 700 Expert testimony

Standard 100.02 establishes the scope of the standards which extend to all CAs and not only those that have qualified as IFAs.

100.02 These are the minimum standard practices that should be met by all chartered accountants conducting IFA engagements (collectively referred to in this document as "IFA practitioners").

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Practices is to protect the public by ensuring consistency with a minimum standard of practice to be met by all Chartered Accountants in the performance of IFA engagements.

These Standard Practices are not pronouncements of the CICA's Auditing and Assurance Standards Board or the Accounting Standards Board which are published in the CICA Handbook. They will be upheld through the Rules of Professional Conduct of the Provincial Institutes/Ordre of Chartered Accountants.

As these standards become better known in the litigation community, CAs providing IFA related services are being held to these standards and challenged as to their adherence to these standards.

## The Standards

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The difference between standards and procedures are addressed in 100.05:

100.05 IFA standard practices are different from IFA engagement procedures. Standard practices relate to the IFA practitioner's professional skills, the performance of his or her engagement, and the preparation of his or her report. IFA procedures are the specific acts or steps performed by the practitioner to attain his or her objectives in the particular engagement.

An IFA engagement is defined in 100.08 and the applicability of the standards in 100.17:

- 100.08 "Investigative and forensic accounting engagements" are those that:
- (a) require the application of professional accounting skills, investigative skills, and an investigative mindset; and
  - (b) involve disputes or anticipated disputes, or where

there are risks, concerns or allegations of fraud or other illegal or unethical conduct.

100.17 These IFA standard practices should be applied to all IFA engagements, and to work performed by all individuals on such engagements.

### 200. ENGAGEMENT ACCEPTANCE

This section of the standards deals with the determination of the parameters of the engagement, including their role, the purpose(s) and general scope of the work to be performed, the nature of any report, and, where applicable, the terms and conditions for the IFA engagement.

As is the case in all professional engagements, it is always best to have these engagement arrangements and the client's expectations as well as the agreed upon deliverables documented in writing, whether it be in a formal engagement letter or a less formal memorandum.

### 300. PLANNING & SCOPE OF WORK

This section outlines the procedures to follow in the planning of the engagement, including the hypotheses, if any, to be considered as well as the approach to seeking and gathering the necessary information upon which the IFA practitioner will rely upon in the performance of their engagement.

This section also addresses the use of assistants as well as the use of other experts.

### 400. INFORMATION COLLECTION & ANALYSIS

400.01 IFA practitioners should use an investigative mindset in the identification, pursuit, analysis and evaluation of information relevant to each IFA engagement, contemplating that it may be biased, false, unreliable and/or incomplete.

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MANAGING THE RISK OF FRAUD has been prepared for the general information of our clients, staff and other interested parties. The enclosed comments are of a general nature and are not intended to cover all aspects of the subject matter. Prior to implementing any planning based upon information in this publication, the specific facts pertaining to any particular situation should be carefully considered. We will be pleased to assist in this regard and to provide further details pertaining to the matters discussed herein.

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An investigative mindset is defined in the standards as follows:

100.11 An “investigative mindset” requires a sceptical attitude in the identification, pursuit, analysis and evaluation of information relevant to each engagement, contemplating that it may be biased, false and/or incomplete. This is applicable in identifying and assessing relevant issues, assessing the plausibility of the underlying assumptions, assessing substance over form, and developing hypotheses for the purpose of addressing the issues under investigation.

Professional scepticism is not defined in the standards but is defined in section 5135 of the CICA Handbook as follows:

5135.023 ..... Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism requires an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist.

The importance of this standard can not be understated. It is not acceptable to identify assumptions relied upon in the IFA practitioner’s report unless these assumptions have been evaluated objectively by the IFA practitioner and been determined to be relevant, reasonable, unbiased, reliable and as complete as is realistically and reasonably possible.

All of this will necessarily depend upon the use of professional judgement, a concept which is referred to several times in the standards.

Where assumptions are to be relied upon, the standards provide guidance to the IFA:

400.10 IFA practitioners should evaluate the reasonableness and consistency of all estimates and assumptions having regard to the IFA practitioners’ competence, expertise and other available relevant information.

Two of the more important paragraphs in the standard are contained in this section:

400.04 IFA practitioners should consider the relevance of all information that arises during the course of an IFA engagement.

400.05 IFA practitioners should identify, analyze, assess and compare all relevant information, assess substance over form, and develop and test, as needed, hypotheses for the purpose of evaluating the issues in the IFA engagement.

These two paragraphs outline the requirement that the IFA practitioner approach the engagement without restrictions in the scope of the work or information they are to consider.

However, certain engagements might be of such a magnitude that more than one IFA practitioner may be engaged to address different aspects of the file, such as one who would be engaged to investigate fraudulent activity on the part of management and another to participate in the capture and analysis of electronic data to be used in the quantification of losses and damages resulting from fraudulent activities.

This section continues to emphasize the importance of considering all relevant information with the following two paragraphs.

400.12 IFA practitioners should review all information received during an IFA engagement, and consider its relevance, reliability, reasonableness, completeness and consistency with other known engagement information.

400.13 IFA practitioners should consider and address reasonable alternative theories, approaches and methodologies that may be relevant to their work.

## 500. FILE DOCUMENTATION

Consistent with all professional engagements by CAs, is the need to carefully and accurately document the work performed. A listing of items to be included are identified in 500.01 but this list is certainly not exhaustive and will be subject to modification depending upon the nature of the IFA engagement.

500.01 IFA practitioners’ working papers should contain or have a reference to all information used and relied upon in carrying out an IFA engagement, including the following documents or summaries thereof which would usually be retained on file:

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- (a) research;
  - (b) accounting, banking and other business records, and agreements;
  - (c) pleadings, criminal or regulatory charges, and other legal claims;
  - (d) affidavits and discovery transcripts;
  - (e) engagement letters and other correspondence;
  - (f) reports issued;
  - (g) schedules and calculations, including all necessary explanations;
  - (h) notes and other recordings of interviews, meetings and discussions;
  - (i) documentation of key issues considered and key assumptions made;
  - (j) the approach(es) taken and specific techniques used;
  - (k) a record of the nature, extent and timing of procedures performed and the results of such procedures;
  - (l) a record of the identities of the individual(s) performing the IFA engagement and a record that the work performed by assistants was supervised and reviewed; and
  - (m) where the work of others is relied upon, their findings and conclusions.
- (d) the effective date for the findings and conclusions, if different from the date of the report;
  - (e) the objectives and circumstances of the IFA engagement and the purpose for which the report is being prepared;
  - (f) identification of the documents and sources of information relied upon to prepare the report;
  - (g) the extent of reliance on the work of others;
  - (h) the techniques and procedures performed when preparing the report, including a description of the approach(es) and rationale for selecting such approach(es);
  - (i) any underlying assumptions and the reasons for relying on such assumptions;
  - (j) the definition(s) of any technical terms and interpretations used in the report;
  - (k) the findings and conclusions reached and any supporting analyses and charts;
  - (l) sufficient information to enable the user to relate the findings and conclusions to the supporting analyses, information and documents;
  - (m) any restrictions on the use of the report; and
  - (n) any scope or other limitations affecting the findings and conclusions.

The importance of the file documentation and retention of everything that has been collected, received and reviewed is extremely important to be able to respond to questions which may arise regarding the adherence by the IFA practitioner to the standards.

### 600. REPORTING

The adherence to reporting standards will be evident from a review of the IFA practitioner's report. Deficiencies, omissions or other failures to adhere to the standards may negatively impact upon the reliance to be placed on the report by the intended users.

600.08 All reports should include the following information:

- (a) the name(s) and professional designation(s) of the IFA practitioners and/or the firm responsible for the report;
- (b) who retained the IFA practitioner(s) and to whom the report is directed;
- (c) the date of the report;

This section goes on to add additional disclosures where the IFA practitioner is expected to be subject to an examination on the report:

600.09 Where the independence of the IFA practitioner may reasonably be questioned, the following should be disclosed:

- (a) the role of the practitioner;
- (b) the relationship of the practitioner to any of the involved parties; and
- (c) the IFA practitioners' conclusion regarding whether they are independent.

### 700. EXPERT TESTIMONY

The role of the IFA practitioner as an expert witness in litigation has become a common occurrence. As such, the standard emulates the conduct, impartiality, objectivity and independence expected of all expert witnesses in the courts.

## **ABOUT LEVI & SINCLAIR**

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- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
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