

Preparing Accounting Records and Financial Statements (Clean)

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General Provisions

290.167 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Originating or changing journal entries, or determining the account classifications of transactions; and
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

290.168 Providing an audit client with accounting and bookkeeping services, such as preparing accounting records or financial statements, creates a self-review threat when the firm subsequently audits the financial statements.

290.169 The audit process, however, necessitates dialogue between the firm and management of the audit client, which may involve:

- The application of accounting standards or policies and financial statement disclosure requirements;
- The appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities; or
- Proposing adjusting journal entries.

These activities are considered to be a normal part of the audit process and do not, generally, create threats to independence so long as the client is responsible for making decisions in the preparation of the accounting records and financial statements.

290.170 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as International Financial Reporting Standards). Such services do not, generally, create threats to independence provided the firm does not assume a management responsibility for the client.

Audit clients that are not public interest entities

290.171 The firm may provide services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level and the firm does not assume a management responsibility for the client.

Services that are routine or mechanical in nature require little to no professional judgment from the professional accountant. Examples of such services include:

- Providing payroll services based on client-originated data;
- Recording transactions of a routine nature such as a utility bill for which the client has determined or approved the appropriate account classification;
- Calculating depreciation on fixed assets when the client provides the accounting policy and estimates of useful life and residual values;
- Recording a transaction involving a significant degree of subjectivity in which the client has determined the correct amount such as the valuation of an asset
- Posting transactions coded by the client to the general ledger;
- Posting client-approved entries to the trial balance; and
- Preparing financial statements based on information in the trial balance that is substantially complete and accurate.

Examples of services that would not be considered routine or mechanical in nature would include:

- Preparing source documents;
- Determining journal entries, account codings, or classification for accounting records; and
- Determining accounting treatment or journal entries for non-routine transactions such as mergers, spin-off, share capital increase or decrease.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Arranging for such services to be performed by an individual who is not a member of the audit team; or
- If such services are performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the work performed.

Audit clients that are public interest entities

290.172 A firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.