



# MEMBER ADVISORY

Special supplement to WebLink

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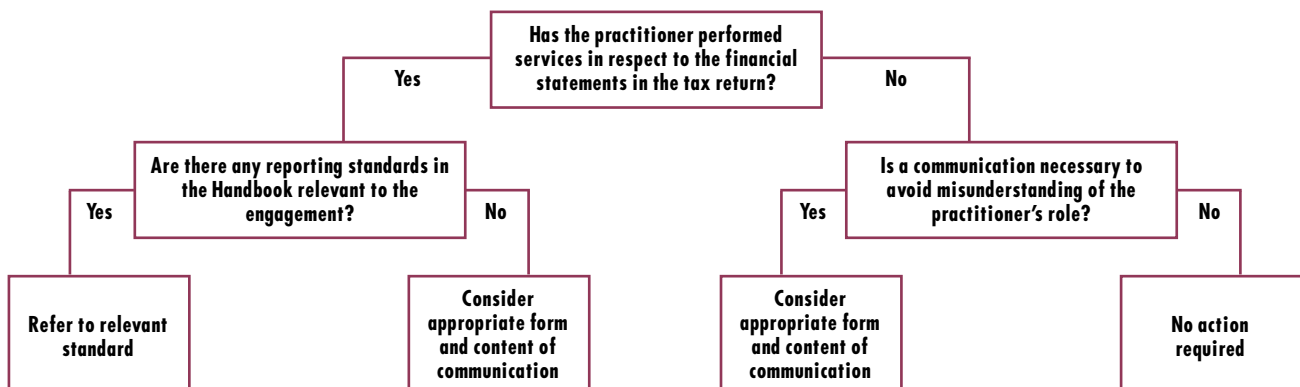
## Notice to Reader Reports Regarding Information Included in Tax Returns

### The Issue

Practitioners have questioned whether Notice to Reader reports should be attached to financial information included in tax returns and other filings with government agencies. Practitioners are not being consistent in their practice of attaching Notice to Reader reports, particularly in the case of corporate and personal income tax returns, including the General Index of Financial Information (GIFI) and various supplemental schedules, such as T2124 (business income) and T2042 (farming income). Some practitioners believe that there should be some sort of communication regardless of whether the practitioner is associated with the information or not, so that there is no misunderstanding by stakeholders. Furthermore, some practice inspectors have told practitioners that attaching a Notice to Reader report is required, while others do not require this. CICA assurance standards staff was asked to clarify the issue. The following information sets out **their assessment**—**there is no clear-cut answer**.

### CICA Assessment

*Whether the practitioner issues some form of communication in connection with a tax return or other government filing, and the form and content of such communication, are matters of professional judgment. In exercising this judgment, the practitioner would consider the matters set out in the following decision tree:*



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### Key Questions of the Issue

The key questions the practitioner needs to answer are:

1. Is the practitioner associated with the information in the tax return?
2. What form of communication is needed if the practitioner is associated with the information?
3. Is communication necessary to avoid misunderstanding when the practitioner is not associated with the information?

### Association

*CICA Handbook - Assurance*, Section 5020, *Association*, describes how a practitioner associates himself/herself with information and the professional responsibilities that stem from such association.

It is important to remember that, in addition to *Association*, the practitioner is required to determine the relationship with the client under Rule 204 - Independence for audits, reviews and notice to reader engagements.

After looking to Section 5020 practitioners may look to other areas in the *Handbook* for guidance. The *Handbook* prescribes reporting requirements when the practitioner audits, reviews or compiles financial statements. Reporting requirements are also specified when the practitioner audits or reviews financial information other than financial statements, or applies specified auditing procedures to financial information other than financial statements. Section 9200, *Compilation Engagements*, applies to engagements to compile financial statements or part of a set of financial statements. There are no specified reporting requirements when the practitioner compiles financial information other than a set of financial statements or part of a set of financial statements. However, paragraph 9200.02 indicates the Section may also provide useful guidance when a practitioner is asked to compile other financial information.

### Methods of communicating when the auditor is associated with the information

In addition to the Notice to Reader on financial statements the practitioner has compiled, he or she would also complete Schedule 141 of the corporate tax returns. For supplemental schedules included in personal and corporate income tax returns, the practitioner may complete the disclaimer included in the tax software (e.g. prepared without audit or review from information provided by the taxpayer).

### Need to avoid misunderstanding

Section 5020 provides a number of examples of information and the nature and extent of the practitioner's involvement with that information together with the practitioner's professional responsibilities. One of the examples deals with a tax return and financial statements attached to the return. In the example, the practitioner prepared the tax return but did not prepare the financial statements. The practitioner has not associated himself/herself with the financial statements because he or she has not performed services in respect of the financial statements or

consented to the use of his or her name in connection with the financial statements. There are no professional reporting responsibilities, but the practitioner must follow paragraph 5020.10 and decide whether a communication is necessary to avoid misunderstanding. Without such communication, a user of the tax return may mistakenly believe that the practitioner was involved with the financial statements, since the financial statements accompany the tax return.

### Methods of communication to avoid misunderstanding

Methods of communicating to avoid misunderstanding of the practitioner's role include:

1. Completing Schedule 141 (in the case of corporate tax returns).
2. Completing the disclaimer provided in the tax software.
3. Issuing a separate letter explaining the practitioner is not involved with the financial information.

The form and content of a separate letter is up to the individual practitioner, however it may include reference to the financial statements included with the tax filing, and a brief note that the practitioner was not involved in the preparation of the statements, nor did he/she audit, review or otherwise verify the information contained therein. This letter could be attached to the tax return, if the practitioner wishes.

### Scenarios

The following scenarios are provided to give practitioners examples of when he/she may be associated and what his/her responsibilities may be. These scenarios are not meant to be all-inclusive; the practitioner may be engaged for a different type of engagement than that included below. In this case, the practitioner would first look to Section 5020 for guidance, then specific sections in the *Handbook*. In absence of specific guidance, the practitioner would use his/her professional judgment to determine if any communication is necessary and the form such communication should take.

1. The practitioner is engaged to audit the financial statements and prepare corporate tax returns.

The practitioner has associated himself/herself with the financial statements, because he/she has performed services in respect of the financial statements. Under Section 5020.07, the practitioner discharges his/her professional responsibilities by complying with the related rules of professional conduct of his/her provincial institute/ordre, complying with applicable standards in the *Handbook* and determining whether he/she has appropriately communicated the nature and extent of his/her involvement with the information.

The practitioner must comply with the Recommendations included in Section 5100, *Generally Accepted Auditing Standards* with respect to the work performed, and with Section 5400, *The Auditor's Standard Report* with respect to reporting.

The auditor communicates his/her involvement with the

financial information included in the tax return by completing the Schedule 141, Notes Checklist and indicating that he/she completed an auditor's report. The auditor would use his/her professional judgment to determine if completion of the checklist is sufficient to convey the nature and extent of his/her involvement.

2. The practitioner is engaged to perform a compilation engagement and prepare corporate tax returns.

As above, the practitioner has associated himself/herself with the financial statements, because he/she has performed services in respect of the financial statements. The practitioner must comply with the Recommendations in Section 9200, Compilation Engagements. The practitioner communicates his/her involvement with the financial information included in the tax return by completing the Schedule 141, Notes Checklist and indicating that he/she has conducted a compilation engagement. Again, the practitioner would use his/her professional judgment to determine if completion of the checklist is sufficient to convey the nature and extent of his/her involvement.

3. The client prepares their own financial statements, but engages the practitioner to prepare corporate tax returns.

In this situation, the practitioner has not associated himself/herself with the financial statements, as he/she has not performed services in respect of the financial statements. There are no professional responsibilities, but the practitioner must consider paragraph 5020.10 and decide whether a communication is necessary to avoid misunderstanding.

Schedule 141, Notes Checklist is used to indicate information about the individual who prepared the financial statements of the corporation. In this case, the practitioner would indicate that the individual who prepared the financial statements is connected with the corporation. However, this may not clearly communicate the practitioner's involvement and users of the tax returns may believe that the practitioner is associated with the financial information. The old version of Schedule 141 was much clearer - an option was included that the financial statements were "prepared by an employee/associate/management of the company, or a person on behalf of the company, without the involvement of an independent practitioner." However, the new version of Schedule 141, issued in 2004 now requires that the practitioner indicate his/her designation, whether he/she is connected with the corporation and the type of involvement (e.g. audit, review or compilation). The new version of the form is much less specific and open to potential misunderstanding. The practitioner must use professional judgment to determine if further communication is necessary to avoid misunderstanding.

4. The client engages the practitioner to prepare a personal tax return, which includes a rental schedule. The client provides the practitioner with the detailed information, which the practitioner summarizes for the rental schedule.

This type of financial information in a tax return differs from the examples above, as there is no General Index of Financial Information (GIFI) or Schedule 141, Notes Checklist for personal tax returns, and therefore no way of communicating association. Furthermore, if the practitioner does not prepare a separate financial statement, he or she is not associated by way of Sections 5030 and 9200.

In this situation, the practitioner must consider paragraph 5020.10 and decide whether a communication is necessary to avoid misunderstanding. This communication does not have to be in the form of a Notice to Reader. The practitioner would determine the appropriate form of communication.

### Frequently asked questions

**This seems like a simple matter. Why is there not a simple solution?**

*A practitioner may provide many different services to clients. Each situation may be slightly different, with different implications. As such, there can be no simple solution. All situations must be considered. The simplest solution that can be offered is to refer back to the basic principles of association.*

**Can I avoid association by removing my name from the T1 and/or T2?**

*This would be misleading if the practitioner was involved in preparing the income tax return. If the practitioner did not prepare the return, his or her name should not be on the return; however, if he or she did prepare the return, he or she is required to indicate this on the return. The issue is not association with the tax return itself, but with the financial information included therein.*

**Is the disclaimer provided in the software sufficient? If so, should it be printed on every page?**

*As discussed above, it is the responsibility of the practitioner to determine whether his or her involvement is appropriately communicated. If he or she does not believe that the disclaimer is sufficient, he or she has the responsibility to determine the form of communication so that there is no misunderstanding.*

**Can I avoid association by not printing the GIFI schedules? For example, can I provide CRA the coding sheets and provide the client with the jacket and supporting schedules only?**

*Regardless of whether the GIFI schedules are printed and given to CRA or the client, there is still financial information included in the tax return. The issue is not whether the GIFIs are printed, but whether the practitioner is seen to be involved with the financial information. The practitioner must still consider whether his or her involvement is clearly communicated.*

**If I know my client is sending the tax return to their bank, should I add an enclosure letter stating that we compiled the tax return from information provided by the client and we did not provide any other services, or does this statement need to be on the tax return itself?**

*This is a matter of professional judgment. If the practitioner is concerned that a separate letter may not clearly communicate his or her involvement, or is concerned that the letter may be separated from the tax return and therefore not seen by the intended recipient, the practitioner should use his or her judgment as to the best way of communicating his or her involvement. This may be done by making a statement on the tax return, or attaching a copy of his or her letter directly to the tax return.*

**Can the CICA provide practitioners with a sample letter for communicating association?**

*The CICA feels that it is up to practitioners to determine what should be included in the communication. Just as there are many different ways that the practitioner may be involved with the financial information, there are many different ways that this may be worded. Practitioners can use their professional judgment to determine how detailed they want their own communication to be.*

**Conclusion**

In any situation, the practitioner should exercise his/her own professional judgment in interpreting the Recommendations of Section 5020 and in determining if additional communication is necessary to clarify his/her association with the information. The practitioner should also use his/her judgment to determine the format of such communication.