

## **INFORMATION NOTE FOR THE PROFESSION: NEW SPOT AUDIT PROGRAM**

**This document is intended to provide members who operate trust accounts in Nunavut with initial information about this new program.**

### **Background**

As part of their public protection mandate, all Canadian law societies have spot audit powers to ensure that members are complying with accounting requirements and handling trust funds appropriately.

In Nunavut, specific authority to establish such a spot audit program is found in Part VI of the *Legal Profession Act (LPA)* and Rules 90.1-92 of the *Rules of the LSN*.

### **Timeline for implementation**

The Law Society of Nunavut's (LSN) Spot Audit Program is scheduled to be implemented before the end of this year.

### **Purpose of Spot Audits**

Designed as a pro-active compliance measure, spot audits measure the integrity of a member's financial record-keeping.

A primary goal of the LSN's Spot Audit Program is educational: to provide guidance to help members correct minor deficiencies with record-keeping practices. This will hopefully prevent identified minor deficiencies from leading to more serious noncompliance issues in the future.

### **Spot Audit Selection**

The LSN's Spot Audit Program will include both random and targeted audits of members (individual members or firms) who operate trust accounts in Nunavut.

Targeted audits will be based on a number of factors, for example:

- whether the member has recently opened a trust account in Nunavut
- when the member was last audited
- the member's areas of practice
- reporting of financial irregularities or related concerns

## **Spot Audit Process**

Once a member has been selected for a spot audit, they will be contacted by the external auditor (an accountant) who has been engaged by the LSN. The auditor will provide a list of the member's books and records that will need to be made available to the auditor within 14 days. The auditor will review those documents and may request follow-up information from the member.

The auditor will then prepare a spot audit report, a copy of which will be provided to the member and the LSN.

## **Member Cooperation**

Timely member cooperation with the spot audit process is essential: members are required, without delay, to make the requested books and records available to the auditor.

Under s. 48.1 of the *LPA* and Rule 90.1, the Executive may suspend a member who does not comply with the spot audit process.

## **Possible Outcomes**

The identification of minor deficiencies will usually be resolved with the member's undertaking to remedy those deficiencies (with follow-up as required).

Serious deficiencies may lead to a complaint being filed with the Chairperson of the Discipline Committee under Rule 91.

## **Spot Audit Costs**

The cost of a spot audit will normally be paid by the LSN from the Assurance Fund.

However, where significant deficiencies are identified, Rule 92 of the *Rules* authorizes the Chairperson of the Discipline Committee to order that the cost of the spot audit be paid by the member.

## **Next Steps**

Members who operate a trust account in Nunavut should be prepared to be selected for a spot audit at any time before the end of this year.