

Practice Advisory

Changes to Rule 204 Independence to Address Breaches and Contingent Fees

Changes to Rule 204 *Independence* were approved by CPA Ontario's Council on August 26, 2016 for inclusion in the CPA Code of Professional Conduct ("CPA Code"). These changes clarify:

- 1) what requirements and processes should be followed when a member or firm breaches an independence rule; and
- 2) whether contingent fees are permissible: for assurance engagements; for non-assurance services provided to assurance clients; and if networks firms have provided another engagement on a contingent fee basis.

These changes to Rule 204 have been made to be consistent with the Code of the International Ethics Standards Board for Accountants ("IESBA"). As a member of the International Federation of Accountants, the Canadian accounting profession has an obligation to adopt independence rules that are no less stringent than IESBA's, unless a particular provision is prohibited by law or regulation or determined not to be in the public interest.

Breaches of an Independence Rule

The changes address situations when a member or firm has breached an independence requirement, and sets out requirements and processes for:

- reporting of the issue within the firm; [Rule 204.6(a) and (b)]
- ensuring that the nature of the breach is analyzed and evaluated, that appropriate actions are taken, and that the breach is also communicated to network firms as appropriate; [Rule 204.6(b)]
- considering whether safeguards can be applied, whether the assurance engagement may be continued, and obtaining concurrence from client as appropriate; [Rule 204.6(c);(d);(e)]
- considering whether previously issued assurance reports should be withdrawn; [Rules 204.6(f)]
- reporting the matter to responsible parties within the assurance client; [Rules 204.6(c);(d);(e);(f)]
- documenting the analysis and conclusions; [Rule 204.6(g)] and
- reporting the matter to CPA Ontario. [Rule 204.6(h)].

The amendments to Rule 204 also provide clarity regarding which breaches should be brought to the attention of the audit committee or those charged with governance, and regarding the reporting to CPA Ontario of breaches of the independence rules that lead to a conclusion to terminate an audit or assurance engagement, or to withdraw a previously issued a report.

Contingent fees

The changes bring certain provisions and related guidance into Rule 204 that previously existed in Rule 215 *Contingent Fees*. Some restrictions have also been strengthened. Under the new Rule:

- Contingent fees are not permitted for assurance engagements. (This was formerly included in Rule 215.)

- Under certain circumstances, assurance services shall not be provided to clients for whom the member or firm provides non-assurance services on a contingent fee basis.
- A firm should not perform an audit or review engagement if the network firm that would participate in that engagement has provided another engagement on a contingent fee basis and that fee is material to that network firm.

Effective date

Changes are effective for audits and reviews of financial statements for periods beginning after December 15, 2016 and for all other assurance engagements commencing after December 15, 2016. New paragraphs D and E “Effective date and transitional provisions”, along with related Guidance, have been provided to clarify which sections of the CPA Code apply until the new Rules in respect of breaches and contingent fees come into effect.

Questions

For additional clarification, contact a Practice Advisor at 416.962.1841 ext. 4456, or by email at practiceadvisory@cpaontario.ca.