Practice Advisory

Clarification on 2010 Changes to Independence Rule in respect of Partner Rotation

(Originally published in 2011 – updated October 2016 to incorporate changes in terminology reflected in the CPA Code of Professional Conduct (the "CPA Code"))

The following frequently asked questions have been developed to address issues raised by practitioners regarding the changes to the partner rotation aspects of the Independence Rule (Rule 204) of the CPA Code of Professional Conduct that were approved by members in the fall of 2010. Other practical guidance on Rule 204 can be found under *Independence* in the *Articles* section of *Practice Matters* in the *CPA Firms* area of CPA Ontario's website at www.cpaontario.ca.

1. **After five years as lead engagement partner for a reporting issuer client, I rotated-off for a year. Can I resume the role of either lead engagement partner or engagement quality control reviewer under the new rules?**

   Yes, while Rule 204 doesn't specifically define "rotations on or off", it clearly defines the length of time a member may serve in either the lead engagement partner or engagement quality control reviewer role as a total number of years, which is now seven. This means if a member serves less than a total of seven years in either role, he or she may take a break and resume either role as long the cumulative total does not exceed seven.

   In this case, you have already served five years so you may serve two more years for a total of seven. At the end of the second additional year, you must rotate off and not resume either role of lead engagement partner or engagement quality control reviewer until a further five years have elapsed.

2. **I have been the lead engagement partner (or engagement quality control reviewer) on a public company client since 2004 and it became a reporting issuer in 2008. Can I stay on to complete the audit for the 2010 fiscal year-end?**

   Yes. According to Guidance paragraph 3 to rule 204.4(20)(a) (b) and (c), at the time a client becomes a reporting issuer, the length of time the lead engagement partner has served in that capacity should be considered in determining when the partner must be replaced. If the lead engagement partner has served in that capacity for five or more years, he or she may continue for two more fiscal years.

   In this case, you haven't served five or more years in the lead engagement partner role by 2008 so you count the number of years you have been in the lead engagement partner role, accordingly with 2004 being year one, and 2010 is year seven and therefore the last year you can serve as lead engagement partner.

A variation of this scenario is if the client became a reporting issuer in 2009. At that time, although you would have been the lead engagement partner for six years, you would be permitted to continue for two more fiscal years, with 2009 counting as year one and 2010 as year two. (There is no limit on the number of years prior to the client becoming a reporting issuer). After 2010, you cannot then resume the role of either lead engagement partner or the engagement quality control reviewer until a further five years have elapsed.

3. My reporting issuer client has a 31 March year-end and 2010 was year five for partner rotation. Can I continue for two more years under the new rules adopted in late 2010?

Yes. Although the current independence rules became effective 1 January 2004 with a "five/five" rotation requirement for the lead engagement partner and the engagement quality control reviewer, the most recent changes to the independence rules in late 2010 are intended to be applied as if Rule 204.4 (20)(a) (b) and (c) ***Long association of senior personnel with a reporting issuer or listed entity audit client*** and the related Guidance always had a "seven/five" rotation period.

Accordingly, you may continue in the role of lead engagement partner for two more fiscal years.