

PRACTICE ADVISORY

Annual Communication of Independence Matters

(Originally published in 2011 – updated November 2018)

The following questions and answers have been prepared to address some of the questions that have been received by member advisors in respect of the Canadian Auditing Standards (CAS) in the *CPA Canada Handbook - Assurance* and how they impact the interpretation of the independence rules in the CPA Code of Professional Conduct.

1. Does the CPA Code of Professional Conduct require communication relating to independence matters?

Guidance paragraph 39 to Rules 204.1 to 204.3 refers to the CAS requirements with respect to annual communication of independence matters with audit committees (or similar oversight bodies):

39... The *CPA Canada Handbook – Assurance* requires members and firms to determine the appropriate person or persons within the entity's governance structure with whom to communicate and establishes requirements for communication on matters relating to independence with such a person or persons.

Paragraph 17 of *CAS 260 Communication With Those Charged With Governance* requires auditors of listed entities to communicate an assessment of their independence. Although there is no similar requirement in the CASs for other audits or assurance engagements, such as review engagements, annual independence communications are considered a safeguard, and accordingly practitioners should still review whether they are appropriate for other assurance engagements.

2. When would communications about matters relating to independence be appropriate for audits of unlisted entities, review engagements, other assurance engagements, or engagements reporting the results of applying specified auditing procedures?

Depending on the circumstances of the engagement, practitioners should consider communicating various matters in respect of independence to those charged with governance, such as when there has been a change in a relationship within the firm, or between the firm and the client, or when it would be appropriate in assisting those charged with governance to fulfill their responsibilities for oversight of the financial reporting process.

Ongoing communications may also be useful in the case of non-listed public interest entities that have a wide range of stakeholders, where management is less directly involved with those charged with governance.



3. If an auditor (other than an auditor of a listed entity) decides to communicate matters relating to independence, does this need to be in writing?

There are no requirements for an auditor of unlisted entities to provide independence communications in writing or otherwise; however, if an auditor (other than an auditor of a listed entity client) chooses to communicate independence matters, written documentation is the best evidence of these communications.

4. Are auditors of listed entities required to specifically state in their written communications when the auditor is not aware of any matters, in the auditor's professional judgment, that may reasonably be brought to bear on independence?

While there is a requirement for auditors of listed entities to communicate an assessment of their independence in writing (as described in more detail below), in situations where the auditor is not aware of any relationships that may be reasonably thought to bear on independence, there is no specific requirement to put that statement in writing. Current practice is, however, to include a positive statement to this effect in the independence letter, for example, "I am not aware of any relationships between the Company and me that, in my professional judgment, may reasonably be thought to bear on my independence, that have occurred from [Date] to [Date]."

Note that paragraph 17 of *CAS 260 Communication With Those Charged With Governance* requires auditors of listed entities to communicate an assessment of their independence; more specifically, a statement "that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence". Per paragraph 20 of CAS 260, this communication shall be in writing.

Also, communication is required to allow those charged with governance to make their own assessment of auditor independence. As outlined by paragraph 17(b)(i), "this shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor."

5. Why is it necessary to send out a separate letter to the listed entity client when the auditor is not aware of any matters that may reasonably be thought to bear on independence that need to be communicated? Is this not sufficiently addressed by the wording in the "independent" auditor's report?

CAS 260 Communication with Those Charged with Governance specifically requires the auditor of a listed entity to make "a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence". The wording in the audit report does not cover this in sufficient detail, and also does not cover the requirement to communicate fees. As well, CAS 260 outlines the requirement for the auditor to communicate with those charged with governance (who may or may not be shareholders) on a timely basis; delaying this communication until the release of the audit report would not be timely.



As no two situations are identical, CPA Ontario members are responsible for ensuring that their own situation complies with the CPA Code of Professional Conduct, By-law and Regulations.

For further guidance, members are encouraged to contact a Practice or Member Advisor:
Phone: 416-962-1841, ext. 4456 or toll free at 1-800-387- 0735, ext. 4456. Email:
practiceadvisory@cpaontario.ca or memberadvisory@cpaontario.ca.