

# ANNUAL COMMUNICATION OF INDEPENDENCE MATTERS

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As a CPA practising public accounting, it is important to know the client communication requirements regarding independence matters. The form and content of the communication will depend on the type of entity and the services you provide.

This article addresses these communication requirements in the Assurance Handbook and the CPA Code.

## Audits of listed entities

If you are performing an audit of a listed entity,<sup>1</sup> you must communicate with those charged with governance of your client:

- that your engagement team, firm and network firm comply with the relevant ethical requirements regarding independence,
- all relationships and other matters that, in your professional judgment, may reasonably be thought to bear on independence, including fees,<sup>2</sup> and
- the safeguards that have been applied to eliminate identified threats to independence or reduce them to an appropriate level.<sup>3</sup>

### Relevant rules in the [CPA Code of Professional Conduct](#) (CPA Code):

- Rule 204.1, *Assurance and Specified Auditing Procedures Engagements*
- Rule 204.2, *Compliance with Rule 204.1*
- Rule 204.3, *Identification of Threats and Safeguards*

### [CPA Canada Handbook – Assurance](#) (Assurance Handbook):

- CAS 260, *Communication with those charged with governance*

<sup>1</sup> Listed entity is defined in the Assurance Handbook as an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange or are marketed under the regulations of a recognized stock exchange or other equivalent body.

<sup>2</sup> Includes fees for audit and non-audit services provided 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 (CAS 260.C17(i)).

<sup>3</sup> CAS 260.C17(ii)



Your communications to those charged with governance regarding independence must be made **in writing**.<sup>4</sup> If you are not aware of any relationships that may impair your independence, consider including the following statement in the independence letter:

*“We are not aware of any relationships we had with the company from [Date] to [Date] that, in our professional judgment, may reasonably be thought to bear on our independence.”*

Communicating with those charged with governance on independence matters may appear repetitive, since statements on independence are also made in the auditor’s report. However, wording in the audit report does not cover this requirement in detail or include fee information and is not issued until the completion of the engagement. Delaying the independence communication until the audit report is issued would not meet the requirement to communicate with those charged with governance on a timely basis.<sup>5</sup>

The CPA Code reiterates the Assurance Handbook’s requirement for annual communication of independence matters to the audit committee in the guidance to the independence rules.<sup>6</sup> If an audit committee does not exist, the CPA Code suggests communicating to another governance body with the duties and responsibilities normally granted to an audit committee or to those charged with governance for the entity, is appropriate. In some cases, this role may be filled by management personnel.

## Other engagements

In addition to the requirement for the audits of listed entities, the independence rules in the CPA Code require communication with the audit committee for the following:

- approval prior to providing any professional service that is not prohibited from a reporting issuer or listed entity<sup>7</sup> audit client,<sup>8</sup>
- approval of select non-assurance services to an assurance client,<sup>9</sup>
- certain fee information to a reporting issuer or listed entity audit client,<sup>10</sup> and
- breach of the independence rules.<sup>11</sup>

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<sup>4</sup> CAS 260.20

<sup>5</sup> CAS 260.21

<sup>6</sup> Rule 204.1-204.3, guidance paragraph 39

<sup>7</sup> “Reporting issuer” and “listed entity” are defined in Rule 204.4

<sup>8</sup> Rule 204.4(21)

<sup>9</sup> Rule 204.4(27), (35)

<sup>10</sup> Rule 204.4(37)

<sup>11</sup> Rule 204.6

<sup>12</sup> Rule 204.5



In many situations, you must document the results of your discussions with the audit committee.<sup>12</sup>

Even when not required by the CPA Code or the applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding independence matters.<sup>13</sup> Depending on the circumstances of the engagements, consider communicating independence matters to those charged with governance when:

- a change occurs in a relationship within the firm,
- a change occurs in a relationship between the firm and the client,
- the firm provides a new service to the client, or
- the independence communication would assist those charged with governance to fulfill their responsibilities for oversight of the financial reporting process.

As no two situations are identical, CPAs are responsible for ensuring that their own situation complies with the [CPA Code of Professional Conduct](#), [By-law](#) and [Regulations](#). Please note that this article is considered nonauthoritative guidance only.

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<sup>13</sup> Rule 204.1-204.3, guidance paragraphs 41, 47, CAS 260.A32

Have a question? Our Professional Advisory Services team is here to help, making first point of contact within 24 hours.

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