

PRACTICE ADVISORY

Independence Rule in respect of Partner Rotation - FAQs

(Originally published in 2011 – updated November 2018)

The following frequently asked questions have been developed to address issues raised by practitioners regarding partner rotation as it pertains to the Independence Rule (Rule 204) of the CPA Code of Professional Conduct.

- 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 2011 and it became a reporting issuer in 2014. Can I stay on to complete the audit for the 2017 fiscal year-end?**

Yes. According to Guidance paragraph 3 to Rule 204.4(20), 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 before the company became a reporting issuer in 2014. Therefore, you count the number of years you have been in the lead engagement partner role, with 2011 being year one, and 2017 is year seven and therefore the last year you can serve as lead engagement partner.



3. **I have been the lead engagement partner (or engagement quality control reviewer) on a public company client since 2011 and it became a reporting issuer in 2016 (after its fiscal year end). Can I stay on to complete the audit for the 2018 fiscal year-end?**

Although you would have been the lead engagement partner for six years when the company became a reporting issuer in 2016, you would be permitted to continue for two more fiscal years, with 2017 counting as year one and 2018 as year two. (There is no limit on the number of years prior to the client becoming a reporting issuer). After 2018, you cannot then resume the role of either lead engagement partner or the engagement quality control reviewer until a further five years have elapsed.

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:

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Email: practiceadvisory@cpaontario.ca or memberadvisory@cpaontario.ca.