

THE NEW AUDITOR INDEPENDENCE STANDARD BACKGROUND

The New Auditor Independence Standard - History

- In June 2001, the Public Interest and Integrity Committee (PIIC) held an Independence Forum of auditors, regulators, academics, analysts and financial statement preparers.
- The consensus from the Forum was that the PIIC should develop a uniquely Canadian independence standard that would be based on the planned IFAC standard, and incorporate the SEC requirements for audits of public companies.
- In September, 2002, the PIIC issued for public comment the draft independence standard, based on the new IFAC standard and the then latest SEC rules.
- From November, 2002 until the summer of 2003, the PIIC reviewed the commentary received from stakeholders across Canada, made changes to the standard where appropriate as a result of that commentary, and continued to monitor and incorporate relevant changes mirroring those made to SEC regulations.
- In September 2003, the final version of the standard was sent to the PICAs for adoption.

The New Auditor Independence Standard – Overview

- The new standard is as robust standard as any in the world.
- The new standard provides a framework for auditors to apply in every assurance engagement. The framework requires the auditor to identify threats to independence and apply safeguards to eliminate any threat or to reduce the threat to an acceptable level. If safeguards are not available, the auditor cannot perform the engagement.
- Applies to all audit and assurance engagements.
- The new standard prohibits the firm and members on the engagement team and their immediate family from holding a financial interest in an assurance client.
- For audit and review clients the standard also prohibits partners who practice in the same office as the lead engagement partner from holding a financial interest in that client; and prohibits all partners and professional employees from holding more than 0.1% of the securities of an audit or review client.
- Effective for engagements starting after December 31, 2003 with some transitional provisions for implementation.

The New Auditor Independence Standard – Listed entities

- The new standard contains specific rules for auditors of listed entities:
 - Prohibits certain non-audit services (bookkeeping, valuations, actuarial, internal audit outsourcing, IT system design or implementation, HR functions, corporate finance activities, certain expert services and legal services)
 - Requires rotation of audit partners (lead and concurring partner after 5 years with 5 year time out period, partners who provide more than 10 hours of audit services to the client and lead partners on significant subsidiaries rotate after 7 years with a 2 year time out period)
 - Prohibits members of engagement team from working for the client in a senior accounting capacity until one year has passed from the time when they were on the engagement team
 - Prohibits compensation of audit partners for cross-selling non audit services to their audit clients
 - Requires audit committee prior approval for any service provided by the auditor
- The rules for listed entities apply to those listed entities with market capitalization or total assets in excess of \$10 million.