Agenda Item 8-F (Updated)

TECHNOLOGY PROJECT – OCTOBER REVISED TEXT (MARK-UP FROM SEPTEMBER TEXT)

This October revised draft text illustrates the proposed revisions from the September text, which had proposed revisions to the Exposure Draft *Proposed Technology-related Revisions to the Code* (ED).[1] In addition to the Glossary, proposed revisions are being made to:

- Parts 1-3, Section 110 (i.e., Subsections 113 and 114) and Sections 120, 200 and 220, 300 and 320.
- Parts 4A and 4B (i.e., International Independence Standards), Sections 400, 520, 600, 920 and 950.

The Task Force welcomes advance comments on its revisions by November 4, 2022.

Please email kamleung@ethicsboard.org.

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

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SECTION 110 – THE FUNDAMENTAL PRINCIPLES

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SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

R113.1 A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

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[1] The proposed technology-related revisions were made to the most current version of the Code, including all revisions that have been approved by the IESBA. Such approved revisions incorporate:

- The following revisions that will become effective in December 2022.
  - The revisions to the non-assurance services (NAS) and fee-related provisions of the Code.
  - The revisions to address the objectivity of an engagement quality reviewer (EQR) and other appropriate reviewers.
  - The quality management-related conforming amendments to the Code that were issued as a result of the finalization of the IAASB suite of quality management standards.
- The recently issued revised definition of a public interest entity (PIE) which, among other matters, specifies a broader list of PIE categories, including a new category "publicly traded entity" to replace the category of "listed entity." The PIE-related revisions will become effective on December 15, 2024.

(a) Attain and maintain professional knowledge and skills at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and

(b) Act diligently and in accordance with applicable technical and professional standards.

113.1 A1 Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skills.

113.1 A2 The knowledge and skills necessary to provide a professional activity vary depending on the nature of the activity being undertaken. For example, ~~activities that involve interaction with entities and individuals with which the professional accountant, the firm or the employing organization has a professional or business relationship might require~~ interpersonal, communication and organizational skills facilitate the professional accountant's interaction with entities and individuals with whom the accountant engages. ~~Activities that involve technology might require knowledge of a particular technology and its operation.~~

Commented [KL1]: Acknowledges that while the knowledge and skills necessary to perform an activity depends on the nature of such activity; interpersonal, communication and organizational skills are always used (at whatever level necessary) when interacting with others.

113.1 A3 Maintaining professional competence requires a professional accountant to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the professional activities undertaken by the accountant. Continuing professional development enables an accountant to develop and maintain the capabilities to perform competently within the professional environment.

113.1 A4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

R113.2 In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.

R113.3 Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional activities, aware of the limitations inherent in the activities and explain the implications of those limitations.

SUBSECTION 114 – CONFIDENTIALITY

R114.1 A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired in the course of professional and business relationships. An accountant shall:

Commented [KL2]: Extant R114.1 split into two requirements to enhance clarity and consistency.

- The first (R114.1) covers when a PA should respect confidentiality;
- The second (R114.2) covers when a PA can use confidential information, subject to meeting specific conditions as set out in the lead-in to R114.2.

(a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;

(b) Maintain confidentiality of information within the firm or employing organization;

(c) Maintain confidentiality of information disclosed by a prospective client or employing organization; and

(d~~g~~) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, comply with the accountant's duty of confidentiality.~~; and~~

114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the professional accountant taking appropriate action to protect

the confidentiality of such information in the course of its collection, use, transfer, storage or, retention, dissemination and lawful destruction.

R114.2 Unless authorized by the client or any person entitled to enforce the confidentiality in the information and provided not prohibited by law or regulation, or there is a legal or professional duty or right to disclose the information, a professional accountant shall not:

(ad) Not dDisclose confidential information acquired in the course of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;

(be) Not uUse confidential information acquired in the course of professional and business relationships for the personal advantage of the accountant, the firm, employing organization or for the advantage of a third party;

(cf) Not uUse or disclose any confidential information, either acquired or received in the course of a professional or business relationship, after that relationship has ended; and

(dh) Maintain Use or disclose confidentiality of information that in respect of which a duty of confidentiality applies notwithstanding that that information has become publicly available, whether properly or improperlyeven if the accountant is aware that such information has been improperly disclosed.

114.21 A12 Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required or have the right to disclose confidential information or when such disclosure or use might be appropriate:

(a) Disclosure is required by law or regulation, for example:

(i) Production of documents or other provision of evidence in the course of legal proceedings; or

(ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

(be) There is a professional duty or right to disclose or use, when not prohibited by law or regulation:

(i) To comply with the quality review of a professional body;

(ii) To respond to an inquiry or investigation by a professional or regulatory body;

(iii) To protect the professional interests of a professional accountant in legal proceedings; or

(iv) To comply with technical and professional standards, including ethics requirements.

(b) Disclosure or use is permitted by law and is authorized by the client or the employing organization; and

Commented [KL3]: Responsive to Sept Board comments, the lead-in to R114.2 now clarify the specific conditions under which a PA can disclose/use confidential information. The substance of the lead-in builds off extant 114.1 A1(b), which is now deleted as it is no longer necessary.

Commented [KL4]: Removed - covered by R114.2

114.21 A23 In deciding whether to disclose or use confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure or use of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose or use, the information, include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed means of communicating, the information.
- Whether the parties to whom the information is to be provided or access is to be granted are appropriate recipients.
- Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place and where the confidential information originates.

114.21 A34 The circumstances in which a firm or employing organization seeks authorization consent to use confidential information, or disclose confidential information to third parties, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. When obtaining the consent authorization of the individual or entity that provided such information, factors to be disclosed (preferably in writing) include:

- (a) The nature of the information to be used.;
- (b) The purpose for which the information is to be used by the individual or entityfirm or employing organization obtaining consent authorization (for example, training, development of technology, research or benchmarking data or studies).;
- (c) The individual or entity who will undertake the purpose for which the information is to be used.;
- (d) Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the purpose for which the information is to be used.

R114.32 A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received in the course of a professional or business relationship.

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Commented [KL5]: Responsive to IFIAR comments to also consider the laws and regulations of where data originates (i.e., not just where disclosure takes place), as they could be different.

SECTION 120
THE CONCEPTUAL FRAMEWORK

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Requirements and Application Material

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General

R120.5 When applying the conceptual framework, the professional accountant shall:

(a) Have an inquiring mind;

(b) Exercise professional judgment; and

(c) Use the reasonable and informed third party test described in paragraph 120.5 A9~~6~~.

Having an Inquiring Mind

120.5 A1 An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:

(a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and

(b) Being open and alert to a need for further investigation or other action.

120.5 A2 When considering the source, relevance and sufficiency of information obtained, the professional accountant might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.
- The information or its source might be influenced by bias or self-interest.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

120.5 A3 Paragraph R120.5 requires all professional accountants to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all accountants regardless of the professional activity undertaken. Under auditing, review and other assurance standards, including those issued by the IAASB, accountants are also required to exercise professional skepticism, which includes a critical assessment of evidence.

Exercising Professional Judgment

120.5 A4 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

120.5 A5 Professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the accountant might consider matters such as whether:

- The accountant's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.

120.5 A6 The circumstances in which professional accountants carry out professional activities and the factors involved vary considerably in their range and complexity. The professional judgment exercised by accountants might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain, and variables and assumptions that are interconnected or interdependent.

120.5 A7 Managing complexity involves:

- Making the firm or employing organization and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances. (Ref: Para. R113.3)
- Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the accountant has made. (Ref: Para. R120.5 to 120.5 A3, and R120.9 to 120.9 A2)

120.5 A8 Managing complexity might also ~~include~~involve:

- Analyzing, and investigating, as relevant, any uncertain elements, the ~~multiple~~ variables and assumptions and how they are connected or interdependent.
- Using technology to analyze relevant data to ~~better~~ inform the professional accountant's judgment.
- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.
- ~~Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the accountant has made. (Ref: Para. R120.9 and 120.9 A1)~~
- ~~Making the firm or employing organization and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances.~~

Reasonable and Informed Third Party

Commented [KL6]: Responsive to IOSCO comments, this now explicitly emphasizes that "being alert" and "making... stakeholders aware..." are already requirements in other parts of the Code. There was concern that having these actions under "might" application material could give the impression that it does not always apply.

Commented [KL7]: Responsive to IFIAR comments, removed "better," as it was viewed that the term inadvertently promotes automation bias.

120.5 A9~~8~~ The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

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Other Considerations when Applying the Conceptual Framework

Bias

120.12 A1 Conscious or unconscious bias affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of potential bias to be aware of when exercising professional judgment include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

Organizational Culture

120.13 A1 The effective application of the conceptual framework by a professional accountant is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the accountant's organization.

120.13 A2 The promotion of an ethical culture within an organization is most effective when:

(a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the organization;

(b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;

(c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers; and

(d) The organization adheres to ethical values in its dealings with third parties.

120.13 A3 Professional accountants are expected to:

(a) Encourage and promote an ethics-based culture in their organization, taking into account their position and seniority; and

(b) Exhibit ethical behavior in dealings with individuals and entities with which the accountant, the firm or the employing organization has a professional or business relationship.

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PART 2 - PROFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 200

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

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Requirements and Application Material

General

R200.5 A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

200.5 A1 A professional accountant has a responsibility to further the legitimate objectives of the accountant's employing organization. The Code does not seek to hinder accountants from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.

200.5 A2 Professional accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided that any

statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.

200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization and exhibit ethical behavior in dealings with those entities and individuals with which the accountant or the employing organization has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for a professional accountant when undertaking a professional activity:

(a) Self-interest Threats

- A professional accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.
- A professional accountant participating in incentive compensation arrangements offered by the employing organization.
- A professional accountant having access to corporate assets for personal use.
- A professional accountant being offered a gift or special treatment from a supplier of the employing organization.

(b) Self-review Threats

- A professional accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.

(c) Advocacy Threats

- A professional accountant having the opportunity to manipulate information in a prospectus in order to obtain favorable financing.

(d) Familiarity Threats

- A professional accountant being responsible for the financial reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial reporting of the organization.
- A professional accountant having a long association with individuals influencing business decisions.

(e) Intimidation Threats

- A professional accountant or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
  - The application of an accounting principle.
  - The way in which financial information is to be reported.
- An individual attempting to influence the decision-making process of the professional accountant, for example with regard to the awarding of contracts or the application of an accounting principle.

Identifying Threats Associated with the Use of Technology

200.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a professional accountant when undertaking a professional activity:

- Self-interest Threats
  - The data available is not sufficient for the effective ~~deployment~~ use of the technology.
  - ~~Information about how the technology functions is not available to the accountant.~~
  - The technology is not appropriate for the purpose for which it is to be used.
  - The accountant does not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the ~~output from the~~ technology~~,~~ for the purpose intended. ~~(Ref: Para. 230.2).~~

Commented [KL8]: To address TWG phase 2 report recommendation B w.r.t. to a PA's expectations on "explainability" of the technology.

- ~~Self-interest or Self-review threats~~
  - ~~Use of the technology requires the knowledge, expertise or judgment of the accountant or the employing organization.~~

Commented [KL9]: Deleted as caused confusion - substance of the bullet is covered more clearly in the preceding bullet.

(Ref: Para. 230.2).

- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgment of the accountant or employing organization.

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Evaluating Threats

200.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.

200.7 A2 The professional accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.

200.7 A3 The professional accountant's evaluation of the level of a threat might be impacted by the work environment within the employing organization and its operating environment. For example:

- Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
- Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.
- Policies and procedures to implement and monitor the quality of employee performance.
- Systems of corporate oversight or other oversight structures and strong internal controls.
- Recruitment procedures emphasizing the importance of employing high caliber competent personnel.
- Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.
- Ethics and code of conduct policies.

200.7 A4 The professional accountant's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the employing organization and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees so they obtain the professional competence to sufficiently understand, use and explain the output from the technology.

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SECTION 220
PREPARATION AND PRESENTATION OF INFORMATION

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Requirements and Application Material

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Using the Work of Others

R220.7 A professional accountant who intends to use the work of others, whether internal or external to the employing organization, or other organizations, shall exercise professional judgment to determine ~~what~~ the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider when a professional accountant intends to use the work of others include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

Using the Output of Technology

R220.8 A professional accountant who intends to use the output of technology, whether that technology was developed internally or provided by third parties, shall exercise professional judgment to determine ~~what~~ the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.8 A1 Factors to consider when a professional accountant intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output ~~from~~ of the technology.
- Whether ~~T~~the accountant has the~~'s~~ ability, or has access to an expert with the ability, to understand, ~~assess the reasonableness,~~use and explain ~~the output of~~ the technology, for ~~having regard to~~ the purpose intended~~for which it is to be used~~.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organization's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Commented [KL10]: To address TWG phase 2 report recommendation B w.r.t. to a PA's expectations on "explainability" of the technology.

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Other Considerations

220.11 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial reporting and decision making, the requirements and application material set out in Section 240 apply.

220.11 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.

220.11 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

220.119 A41 When a professional accountant is considering using the work of others or the output of technology, Another considerationa factor to consider is whether the professional accountant is in a position within the employing organization to obtain information in relation to the factors requirednecessary to determine whether such use is appropriateto use the work of others or the output of technology.

Commented [KL11]: Given further upcoming changes to Section 220 arising from the Ethics sustainability workstream; and also the Ethics Use of Experts workstream, this guidance has been relocated under the existing sub-heading for "other considerations" to allow greater flexibility for the future workstreams.

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PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Commented [KL12]: Rationale for changes in Part 3 mirror those in Part 2.

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

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Requirements and Application Material

General

R300.4 A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

R300.5 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

300.5 A1 Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial information for the accountant's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

300.5 A2 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account

their position and seniority in the firm, accountants are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behavior in dealings with those entities and individuals with which the accountant or the firm has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a professional accountant when undertaking a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A professional accountant having a close business relationship with a client.
- A professional accountant having access to confidential information that might be used for personal gain.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- A professional accountant promoting the interests of, or shares in, a client.
- A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
- A professional accountant lobbying in favor of legislation on behalf of a client.

(d) Familiarity Threats

- A professional accountant having a close or immediate family member who is a director or officer of the client.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- An audit team member having a long association with the audit client.

(e) Intimidation Threats

- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
- A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Identifying Threats Associated with the Use of Technology

300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a professional accountant when undertaking a professional activity:

- Self-interest Threats
  - The data available is not sufficient for the effective ~~deployment~~ use of the technology.
  - ~~Information about how the technology functions is not available to the accountant.~~
  - The technology is not appropriate for the purpose for which it is to be used.
  - The accountant does not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the ~~output from the~~ technology, for the purpose intended. ~~(Ref: Para. 230.2).~~

~~• Self-interest or Self-review Threats~~

~~◦ Use of the technology requires the knowledge, expertise or judgment of the accountant or the firm.~~

(Ref: Para. 230.2).

• Self-review Threats

- The technology was designed or developed using the knowledge, expertise or judgment of the accountant or the firm.

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Evaluating Threats

300.7 A1 The conditions, policies and procedures described in paragraph 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:

(a) The client and its operating environment; and

(b) The firm and its operating environment.

300.7 A2 The professional accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional service.

The Client and its Operating Environment

300.7 A3 The professional accountant's evaluation of the level of a threat might be impacted by whether the client is:

(a) An audit client and whether the audit client is a public interest entity;

(b) An assurance client that is not an audit client; or

(c) A non-assurance client.

For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.

300.7 A4 The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, a professional accountant's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

The Firm and its Operating Environment

300.7 A5 A professional accountant's evaluation of the level of a threat might be impacted by the work environment within the accountant's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.

- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

300.7 A6 The professional accountant's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the accountant's firm and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees so they obtain the professional competence to sufficiently understand, use and explain the output from the technology.

Consideration of New Information or Changes in Facts and Circumstances

300.7 A7 New information or changes in facts and circumstances might:

(a) Impact the level of a threat; or

(b) Affect the professional accountant's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the professional accountant re-evaluate and address the threats accordingly. (Ref: Paras. R120.9 and R120.10).

300.7 A8 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the client becomes a listed entity or acquires another business unit.
- When the firm merges with another firm.
- When the professional accountant is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the professional accountant's personal or immediate family relationships.

…

SECTION 320
PROFESSIONAL APPOINTMENTS

…

Requirements and Application Material

…

Using the Work of an Expert

R320.10 When a professional accountant intends to use the work of an expert in the course of undertaking a professional activity, the accountant shall determine whether the use is appropriate for the intended purpose.

320.10 A1 Factors to consider when a professional accountant intends to use the work of an expert include the reputation and expertise of the expert, the resources available to the expert, and the professional and ethics standards applicable to the expert. This information might be gained from prior association with the expert or from consulting others.

Using the Output of Technology

R320.11 When a professional accountant intends to use the output of technology in the course of undertaking a professional activity, the accountant shall determine whether the use is appropriate for the intended purpose.

320.11 A1 Factors to consider when a professional accountant intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output ~~from~~ of the technology.
- Whether ~~T~~the accountant has the~~'s~~ ability, or access to an expert with the ability, to understand, ~~assess the reasonableness,~~use and explain ~~the output of~~ the technology, for ~~having regard to~~ the purpose ~~for which it is to be used~~intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access of the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Other Considerations

320.12 A1 When a professional accountant is considering using the work of others or the output of technology, a factor to consider ~~Another consideration~~ is whether the ~~professional~~ accountant is in a position within the firm to obtain information in relation to the factors ~~required~~necessary

to determine whether such use is appropriate~~to use the work of others or the output of technology~~.

…

INTERNATIONAL INDEPENDENCE STANDARDS

(PARTS 4A AND 4B)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

…

Requirements and Application Material

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Prohibition on Assuming Management Responsibilities

R400.15 A firm or a network firm shall not assume a management responsibility for an audit client.

400.15 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

400.15 A2 When a firm or a network firm assumes a management responsibility for an audit client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

400.15 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:

- The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- Designing, implementing, monitoring or maintaining internal control.

400.15 A4 Subject to compliance with paragraph R400.16, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600.

R400.16 When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

(i) The objectives, nature and results of the activities; and

(ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

400.16 A1 When technology is used in performing a professional activity for an audit client, the requirements in paragraphs R400.15 and R400.16 apply regardless of the nature or extent of such use of the technology.

…

SECTION 520
BUSINESS RELATIONSHIPS

…

Requirements and Application Material

General

520.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
- Arrangements under which the firm or a network firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's or a network firm's products or services.
- Arrangements under which the firm or a network firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an ~~A~~arrangement~~s~~ under which the firm or a network firm licenses products or solutions to or from a client ~~might create a close business relationship~~.

Commented [KL13]: Drafting clarification so that it is clear that this AM acts as a prompt for users of the Code to consider whether such arrangements might create a CBR, depending on the facts and circumstances.

This is responsive to Sept Board comment that some users of the Code might interpret the AM to mean that such arrangements always create CBR.

…

Buying Goods or Services

520.6 A1 The purchase of goods and services from an audit client by a firm, a network firm, an audit team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the audit team.

Providing, Selling, Reselling or Licensing Technology

520.7 A1 ~~If~~ Where a firm or a network firm provides, sells, resells or licenses technology:

(a) To an audit client; or

(b) To an entity that provides services using such technology to audit clients of the firm or network firm,

and depending on the facts and circumstances, the requirements and application material in Section 600 apply.

Commented [KL14]: Drafting clarification so that it is clear that this AM acts as a prompt for users of the Code to consider whether such arrangements might be a NAS, depending on the facts and circumstances.

This is responsive to Sept Board comment that some users of the Code might interpret the AM to mean that such arrangements are always a NAS.

…

SECTION 600
PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

Introduction

600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.

600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to audit clients and indicate the types of threats that might be created as a result.

600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an audit client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.

600.5 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to an audit client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

600.6 The requirements and application material in this section apply where a firm or a network firm:

(a) Uses technology to provide a non-assurance service to an audit client; or

(b) Provides, sells, resells or licenses technology that provides a non-assurance service:

(i) To an audit client; or

(ii) To an entity that provides services using such technology to audit clients of the firm or network firm.

…

Requirements and Application Material

General

…

Identifying and Evaluating Threats

All Audit Clients

600.9 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to an audit client is set out in paragraph 120.6 A3.

600.9 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgment. (Ref: Para. R400.15 to R400.16).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
    - The extent to which the outcome of the service will have a material effect on the financial statements.
    - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
    - Accounting records or financial statements on which the firm will express an opinion.
    - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The fee relating to the provision of the non-assurance service.

600.9 A3 Subsections 601 to 610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services, and evaluating the level of such threats.

…

Self-review threats

600.13 A1 When a firm or a network firm provides a non-assurance service to an audit client, there might be a risk of the firm auditing its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately

evaluate the results of a previous judgment made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the audit team will rely when forming a judgment as part of an audit.

R600.14 Before providing a non-assurance service to an audit client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

(a) The results of the service will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion; and

(b) In the course of the audit of those financial statements on which the firm will express an opinion, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm when providing the service.

Audit Clients that are Public Interest Entities

600.15 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

600.15 A2 Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Self-review threats

R600.16 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if the provision of that service might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion. (Ref: Para. 600.13 A1 and R600.14).

…

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an audit client.

…

Requirements and Application Material

…

Audit Clients that are Not Public Interest Entities

R601.5 A firm or a network firm shall not provide to an audit client that is not a public interest entity accounting and bookkeeping services, including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, unless:

(a) The services are of a routine or mechanical nature; and

(b) The firm addresses any threats that are not at an acceptable level.

601.5 A1 Accounting and bookkeeping services that are routine or mechanical:

(a) Involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and

(b) Require little or no professional judgment.

601.5 A2 Accounting and bookkeeping services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include the activities performed by, and the output of, the technology, and whether the technology provides an automated service that is based on or requires the expertise or judgment of the firm or network firm.

601.5 A3 Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

The firm or a network firm may provide such services to audit clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.16 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

601.5 A4 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine or mechanical nature to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

…

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an audit client.

Requirements and Application Material

Description of Service

606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.
- Implementing IT systems, including installation, configuration, interfacing, or customization.
- Operating, maintaining, monitoring, ~~or~~ updating or upgrading IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data.

606.2 A2 The IT systems might:

(a) Aggregate source data;

(b) Form part of the internal control over financial reporting; or

(c) Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R606.3 Paragraph R400.15 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

(a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;

(b) The client, through a competent individual (or individuals), preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design, development, implementation, operation, maintenance, monitoring, ~~or~~ updating or upgrading of the IT systems;

(c) The client evaluates the adequacy and results of the design, development, implementation, operation, maintenance, monitoring, ~~or~~ updating or upgrading of the IT system; and

(d) The client is responsible for operating the IT system and for the data it generates and uses.

606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Stores data or manages (directly or indirectly) the hosting of data on behalf of the audit client. Such ~~hosting~~ services include~~s~~:
  - (a) Acting as the only access to a financial or non-financial information system of the audit client;
  - (b) Taking custody of or storing the audit client's data or records such that the audit client's data or records are otherwise incomplete; or
  - (c) Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the audit client's data or records.
- Operates, maintains, or monitors the audit client's IT systems, network or website.

606.3 A2 The collection, receipt, transmission and retention of data provided by an audit client in the course of an audit or to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

Potential Threats Arising from the Provision of IT Systems Services

All Audit Clients

606.4 A1 Providing IT systems services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the audit of the financial statements on which the firm will express an opinion.

606.4 A2 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an audit client, and evaluating the level of such a threat include:

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's accounting records, internal controls over financial reporting or financial statements.
- The degree of reliance that will be placed on the particular IT systems as part of the audit.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R606.6 applies.

606.4 A3 Examples of IT systems services that create a self-review threat when they form part of or affect an audit client's accounting records or system of internal control over financial reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring, ~~or~~ updating or upgrading IT systems, including those related to cybersecurity.
- Supporting an audit client's IT systems, including network and software applications.
- Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm.

Audit Clients that are Not Public Interest Entities

606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to an audit client that is not a public interest entity is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R606.6 A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the provision of such services might create a self-review threat (Ref: Para. R600.14 and R600.16).

…

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND -REVIEW ENGAGEMENTS

Commented [KL15]: Rationale for changes in Part 4B mirror those in Part 4A.

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

900.1 This Part applies to assurance engagements other than audit engagements and review engagements. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's non-financial information, for example, environmental, social and governance disclosures, including greenhouse gas statements.
- An audit of specific elements, accounts or items of a financial statement.

…

Requirements and Application Material

…

Prohibition on Assuming Management Responsibilities

R900.13 A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.

900.13 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

900.13 A2 When a firm assumes a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

900.13 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

900.13 A4 Examples of assuming a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, include where a firm:

- Stores data or manages (directly or indirectly) the hosting of data related to the underlying subject matter or subject matter information. Such ~~hosting~~ services include:
  - (a) Acting as the only access to the underlying subject matter or subject matter information;
  - (b) Taking custody of or storing the underlying subject matter or subject matter information such that the assurance client's data or records are otherwise incomplete; or

(c) Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the assurance client's data or records related to the underlying subject matter or subject matter information.

- Operates, maintains, or monitors an assurance client's IT systems, network or website related to the underlying subject matter or subject matter information.

900.13 A5 The collection, receipt, transmission and retention of data in the course of, or to enable the performance of, assurance and non-assurance engagements does not result in an assumption of management responsibility.

900.13 A6 Subject to compliance with paragraph R900.14, providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility.

R900.14 When performing a professional activity for an assurance client that is related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

(i) The objectives, nature and results of the activities; and

(ii) The respective client and firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activity performed for the client's purpose; and

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

900.14 A1 When technology is used in performing a professional activity for an assurance client, the requirements in paragraphs R900.13 and R900.14 apply regardless of the nature or extent of such use of the technology.

…

SECTION 920
BUSINESS RELATIONSHIPS

…

Requirements and Application Material

General

920.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an

individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

920.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the assurance client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.
- Arrangements under which the firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's products or services.
- Arrangements under which a firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

920.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an ~~A~~arrangement~~s~~ under which the firm licenses products or solutions to or from the assurance client ~~might create a close business relationship~~.

…

Buying Goods or Services

920.5 A1 The purchase of goods and services from an assurance client by a firm, or an assurance team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the assurance team.

Providing, Selling, Reselling or Licensing Technology

920.6 A1 ~~If~~ Where a firm provides, sells, resells or licenses technology:

(a) To an assurance client; or

(b) To an entity that provides services using such technology to assurance clients of the firm,

and depending on the facts and circumstances, the requirements and application material in Section 950 apply.

…

SECTION 950

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS

…

Introduction

950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence.

950.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to assurance clients.

950.4 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms might provide to an assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non- assurance service for which there are no specific requirements and application material.

950.5 The requirements and application material in this section apply where a firm:

(a) Uses technology to provide a non-assurance service to an assurance client; or

(b) Provides, sells, resells or licenses technology that provides a non-assurance service:

(i) To an assurance client; or

(ii) To an entity that provides services using such technology to assurance clients of the firm.

Requirements and Application Material

General

…

Identifying and Evaluating Threats

950.7 A1 A description of the categories of threats that might arise when a firm provides a non-assurance service to an assurance client is set out in paragraph 120.6 A3.

950.7 A2 Factors that are relevant in identifying and evaluating the different threats that might be created by providing a non-assurance service to an assurance client include:

- The nature, scope, intended use and purpose of the service.

- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:
    - The extent to which the outcome of the service will have a material effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
    - The extent to which the assurance client determines significant matters of judgment (Ref: Para. R900.13 to R900.14).
- The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
- The fee relating to the provision of the non-assurance service.

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Self-Review Threats

950.10 A1 A self-review threat might be created if, in an attestation engagement, the firm is involved in the preparation of subject matter information which subsequently becomes the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

(a) Developing and preparing prospective information and subsequently issuing an assurance report on this information.

(b) Performing a valuation that is related to or forms part of the subject matter information of an assurance engagement.

(c) Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls.

(d) Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems and subsequently issuing an assurance report on subject matter information, such as elements of non-financial information, that is prepared from information generated by such IT systems. ~~Undertaking an engagement in relation to elements of non-financial information where the IT systems or IT controls that form part of or affect a client's records or system of internal control over those elements of non-~~

Commented [KL16]: Substance of example unchanged - drafting refinement to preserve the existing consistency in Part 4B of the Code with the terms and concepts in the IAASB's International Standard on Assurance Engagements (ISAE) 3000 (Revised).

~~financial reporting were designed, developed, implemented, operated, maintained, updated or upgraded by the firm.~~

Assurance clients that are public interest entities

950.11 A1 Expectations about a firm's independence are heightened when an assurance engagement is undertaken by a firm for a public interest entity and the results of that engagement will be:

(a) Made available publicly, including to shareholders and other stakeholders; or

(b) Provided to an entity or organization established by law or regulation to oversee the operation of a business sector or activity.

Consideration of these expectations forms part of the reasonable and informed third party test applied when determining whether to provide a non-assurance service to an assurance client.

950.11 A2 If a self-review threat exists in relation to an engagement undertaken in the circumstances described in paragraph 950.11 A1 (b), the firm is encouraged to disclose the existence of that self-review threat and the steps taken to address it to the party engaging the firm or those charged with governance of the assurance client and to the entity or organization established by law or regulation to oversee the operation of a business sector or activity to which the results of the engagement will be provided.

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GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

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Conceptual framework	This term is described in Section 120.
Confidential information	Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not publicly available.
Contingent fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.

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