

Invitation to Comment – Proposed Revisions to International Independence Standards in the IESBA Code

TECHNOLOGY

March 2022

*In order to be considered in CPA Canada’s response to the IESBA on behalf of the Canadian profession, comments¹ to the ISC must be received by: **May 17, 2022***

*Comments to the IESBA must be received by: **June 20, 2022***

¹ Please refer to [Responding to the IESBA’s Exposure Draft](#) and [Providing Comments to the ISC](#)

Glossary

CIS – Canadian Independence Standards in Rule 204, *Independence*

IAASB – International Auditing and Assurance Standards Board; Independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, quality control, review, other assurance, and related services

IESBA – International Ethics Standards Board for Accountants; Independent standard-setting board that develops, in the public interest, high-quality ethics standards and other pronouncements for professional accountants worldwide

IESBA Code – IESBA Handbook of the International Code of Ethics for Professional Accountants (including International Independence Standards); Global standards for professional ethics for the accountancy profession

IFAC – International Federation of Accountants; Global organization for the accountancy profession that supports the development, adoption, and implementation of international standards

IIS – International Independence Standards (as issued in Parts 1, 4A and 4B of the IESBA Code)

ISC – [Independence Standing Committee](#); Subcommittee of the PTC charged with recommending high-quality independence standards for proposed adoption by the Canadian profession's Provincial Bodies in their own provincial codes of ethics for use by all CPAs

PCPA – Provincial CPA body

PIOB – Public Interest Oversight Board; Global independent oversight body seeking to improve the quality and public interest focus of the international audit and assurance, and ethics standards formulated by the International Standard Setting Boards

PTC – The Canadian profession's [Public Trust Committee](#); Oversight body for the ethics standards and self-regulatory processes of the CPA profession

Background and Overview

About the PTC

The Public Trust Committee (PTC) oversees the ethics standards and self-regulatory processes of the Chartered Professional Accountant (CPA) profession and serves to protect the integrity of the profession while maintaining public confidence and trust.

The detailed ethics standards are embodied in the provincial CPA bodies' codes of conduct and are monitored and enforced through the profession's self-regulatory activities.

About the ISC

The ISC is a subcommittee of the PTC, formed in 2021, with a mandate to assist the PTC by recommending high-quality Canadian Independence Standards for approval and proposed adoption by provincial CPA bodies (PCPAs). The ISC is charged with reviewing and exposing for public comment all changes proposed by the IESBA to the International Independence Standards (IIS) in the IESBA Code².

The ISC will recommend that the PTC approve revisions to the Canadian Independence Standards (CIS) for proposed adoption by PCPAs with a view to ensuring that Rule 204 is not, in the absence of specific reasons related to the Canadian public interest, laws or regulations, less stringent than the IESBA Code.

² The ISC's first public invitation to comment is on the IESBA's February 2022 Exposure Draft, *Proposed Technology-related Revisions to the Code*.

Responding to the IESBA's proposals

The International Ethics Standards Board for Accountants (IESBA) is an independent standard-setting board responsible for developing high-quality, internationally appropriate ethics standards for professional accountants, including auditor independence requirements (IESBA Code).

The PTC participates in the IESBA's standard-setting process by consulting with provincial CPA bodies (PCPAs), considering comments from Canadian stakeholders and providing a response to the IESBA on its proposed revisions to the IESBA Code on behalf of the CPA profession.

IESBA Exposure Draft

The ISC is exposing proposed changes to the International Independence Standards³ as issued by the IESBA in February 2022 for public comment in Canada.

The IESBA's Exposure Draft, "*Proposed Technology-related Revisions to the Code*," is available on the IESBA website.

In addition to the text of proposed technology-related revisions to the IESBA Code, the IESBA's Exposure Draft includes the Explanatory Memorandum, which provides background to, and an explanation for, the proposed revisions to the IESBA Code.

³ To ensure proper context for the proposals, the IESBA's complete Exposure Draft, Technology, which also proposes revisions to Parts 2 and 3 of the Code in addition to the IIS in Parts 1, 4A and 4B of the Code, is being exposed in Canada.

The ISC invites Canadian stakeholders to **comment** on:

1. The technical merit of the IESBA's proposals for consideration by the profession's Public Trust Committee (PTC) in preparing its response to the IESBA (see also Responding to the IESBA's Exposure Draft); and
2. Whether there are Canadian-specific circumstances which would make any of the IESBA's proposals unsuitable for eventual incorporation into the Canadian Independence Standards (CIS) as outlined in Rule 204, Independence (see also Providing Comments to the ISC). Such circumstances are expected to be limited to:
 - Canadian legal and regulatory requirements; and
 - Other circumstances particular to the Canadian environment where the IESBA's proposals would not serve the Canadian public interest or maintain the quality of the CIS.

Before commenting, stakeholders should be familiar with the roles of the PTC and the ISC with regard to updating and maintaining the Canadian Independence Standards in Rule 204.

[The PTC's Process for Approving Changes to the Canadian Independence Standards](#)

The IESBA Code is not fully adopted in Canada. However, as an IFAC member, CPA Canada is committed to updating and maintaining the Canadian Independence Standards in Rule 204, *Independence*, such that they are **no less stringent** than the IIS as issued by the IESBA, except where required due to law, regulation or to serve the Canadian public interest.

Once proposed changes to the IIS are adopted by the IESBA, the ISC may recommend and the PTC may take steps to amend Rule 204⁴ so that it is no less stringent than the IESBA Code with respect to these proposals, unless changes and/or re-exposure are necessary to reflect Canadian circumstances based on comments received from constituents with respect to the IESBA proposals.

In circumstances where the IESBA's proposals in this Exposure Draft rely or build upon existing requirements in the IESBA Code that have been identified as more stringent than those in the CPA Code the PTC may decide to consider re-exposure of the combined requirements.

The IESBA's Technology proposals take account of the approved changes to the IESBA Code, including those not specific to independence. The Fundamental Principles and Conceptual Framework in Part 1 of the IESBA Code are foundational to all other Parts of the IESBA Code, including the IIS.

Similarly, the fundamental principles and conceptual framework in PCPA codes of conduct are fundamental to the Canadian Independence Standards. Accordingly, the ISC may consider whether to recommend changes to the fundamental principles and conceptual framework in the profession's codes of conduct to the extent that they are considered foundational to Canadian Independence Standards.

⁴ The extent to which Rule 204 is adopted by individual PCPAs is determined by those bodies.

Highlights

The ISC's Invitation to Comment consists of:

- a link to the IESBA's Exposure Draft, "Proposed Technology-related Revisions to the Code", which includes the IESBA's Explanatory Memorandum;
- an overview of the IESBA's Technology Project;
- information about the IESBA's proposed revisions;
- a discussion of significant Canadian-specific circumstances; and
- a request for comments.

Please review "Comments requested" for information on preparing your response to this Invitation to Comment.

The IESBA's Technology Project⁵

In their Explanatory Memorandum, the IESBA notes that the Technology project was highlighted as a priority initiative in the IESBA's Strategy Work Plan 2019-2023 and consistent with strategic input from the Public Interest Oversight Board (PIOB). The IESBA's project involves a review of the IESBA Code to determine technology-related

⁵ Sections on The IESBA's Technology Project and About the Proposed Enhancements are taken from the IESBA's Explanatory Memorandum and include some terminology that is not used in the Canadian profession's provincial codes of conduct and requires familiarity with the IESBA Code. Readers may find the useful background on the IESBA's website, including the series "Exploring the IESBA Code".

enhancements that are necessary to ensure that the IESBA Code remains relevant and fit for purpose.

The Technology project has been informed by various inputs to date, including global surveys and other public outreach, as well as a Phase 1 Report (Report) developed by the Technology Working Group and approved by the IESBA in December 2019. The Report summarizes the IESBA's 2018-2019 fact-finding and research on the impact of trends and developments in artificial intelligence, big data, and data analytics on the ethical behavior of professional accountants, both in business and in public practice. The Report concludes that “generally, the IESBA Code currently provides high level, principles-based guidance for most technology-related ethics issues that professional accountants and firms might encounter.” However, the Report identified several areas where the IESBA Code could be enhanced, which formed the basis of the IESBA’s Technology Project Proposal.

Public Interest Considerations

The IESBA believes that the proposals are both relevant and important because the use and impact of technology represent one of the most important issues affecting the accountancy profession today and for the foreseeable future. The pace of change in, and use of, technology has accelerated during the COVID-19 pandemic. The proposals include several enhancements to modernize the IESBA Code in a principles-based manner with respect to technology.

The IESBA further notes that the public interest will be served with these technology-related proposals because they will help ensure that the IESBA Code’s provisions remain relevant and fit for purpose to respond to the transformative effects of major trends and developments in technology in relation to accounting, assurance and finance functions. Especially in the area of independence, the proposals more clearly

delineate the boundaries of technology-related services that are permissible for firms to provide to their audit clients, or technology-related business relationships they might pursue with their audit clients. Such clarification and strengthening of the International Independence Standards will reinforce public trust in the independence of auditors and assurance practitioners.

About the Proposed Revisions⁶

In considering the proposed Technology-related revisions, the IESBA reviewed the entire IESBA Code, including the independence provisions. The IESBA's proposed revisions are to the most current version of the IESBA Code ("extant IESBA Code"), i.e., including all revisions arising from IESBA projects finalized as of December 2020. The 2021 IESBA Handbook includes all such revisions.⁷

Recently Issued Pronouncements that Apply in Technology-Related Circumstances

The technology-related revisions build on recent revisions to the IESBA Code, including those arising from the IESBA's Role and Mindset project which became effective on

⁶ Sections on The IESBA's Technology Project and About the Proposed Revisions are taken from the IESBA's Explanatory Memorandum and include some terminology that is not used in the Canadian profession's provincial codes of conduct and requires familiarity with the IESBA Code. Readers may find the useful background on the IESBA's website, including the series "Exploring the IESBA Code".

⁷ The 2021 edition of the IESBA Handbook is accessible on the IESBA Code Webpage and IFAC's recently launched e-International Standards and incorporates:

- The revisions to Part 4B of the IESBA Code which became effective in June 2021.
- The revisions arising from the Role and Mindset project that became effective in December 2021.
- The revisions to the IESBA Code that will become effective in December 2022 (i.e., revisions relating to the objectivity of an engagement quality reviewer and appropriate reviewers, and the revised NAS and fee-related provisions of the IESBA Code).

December 31, 2021, and the IESBA's Non-assurance Services (NAS) revisions which will become effective for audits of financial statements for periods beginning on or after December 15, 2022.

According to the IESBA, the NAS revisions aimed to strengthen auditor independence, especially for audits of public interest entities⁸ and introduced changes to the IESBA Code that are relevant to technology. The NAS revisions:

- Prohibit firms from providing IT systems services to audit clients that are PIEs if the provision of such services might create a self-review threat (see IESBA Code paragraph R606.6).
- Provide examples of services that are prohibited because they give rise to a self-review threat. Such examples include the provision of services to public interest entity audit clients that involve designing or implementing IT systems that (a) form part of the internal control over financial reporting, or (b) generate information for the client's accounting records or financial statements on which the firm will express an opinion (see IESBA Code paragraph 606.6 A1).

Highlights of Proposed Revisions to Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework

The IESBA highlights the following key proposed revisions to Part 1:

⁸ These proposals also take into account revisions to the definitions of a public interest entity that were finalized in December 2021. Subject to PIOB approval, the IESBA expects to issue these amendments in April 2022, to be effective for audits of financial statements for periods beginning on or after December 15, 2024.

- Draw special attention to the professional competence and confidentiality imperatives of the digital age.
- Address the ethical dimension of professional accountants' reliance on, or use of, the output of technology in carrying out their work.
- Further enhance considerations relating to threats from the use of technology as well as considerations relating to complex circumstances in applying the IESBA Code's conceptual framework.

Highlights of Proposed Revisions to Parts 4A and 4B – International Independence Standards (IIS)

In the case of the independence provisions that apply to audit and review engagements, the IESBA indicates that the proposals:

- Strengthen and clarify the IIS with respect to technology-related non-assurance services firms may provide to their audit clients or technology-related business relationships they may enter into with their audit clients.
- Explicitly acknowledge that the IIS that apply to assurance engagements are applicable to assurance engagements on non-financial information, for example, environmental, social, and governance (ESG) disclosures.

Canadian-specific circumstances

The IESBA Code, including recent projects on which the IESBA's Technology proposals build, is not fully adopted in Canada. To provide proper context for the IESBA's proposals, [Appendix A](#) provides information about recent revisions to the IESBA Code that have not yet been recommended or approved for adoption in Canada.

The ISC invites comments on Canadian-specific circumstances related to the IESBA's proposals. If the PTC decides to take steps to amend Rule 204 such that it is no less stringent than the IESBA Code with respect to these proposals, the PTC will consider comments received on the IESBA's Exposure Draft about Canadian-specific circumstances in the public interest and determine whether re-exposure is required.

Comments requested

There are two ways of responding to this Invitation to Comment:

- To the IESBA, by responding to the questions in the IESBA's Exposure Draft on the technical merit of the proposals to revise the IESBA Code and the International Independence Standards; and
- To the ISC, by identifying whether there are Canadian-specific circumstances that the ISC should consider in deciding whether to recommend the IESBA's final revisions to the PTC for approval in Canada.

Responding to the IESBA's Exposure Draft

Stakeholders are asked to provide comments on the IESBA's Exposure Draft directly to the IESBA and to provide the ISC with a copy of these comments. The ISC and PTC will take such comments, if received by May 17, 2022, into account in drafting CPA Canada's response to the IESBA's Exposure Draft. Comments are most helpful if they relate to and identify a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the IESBA Exposure Draft should be supported by specific reasoning and include a suggested alternative.

When a respondent agrees with proposals in the IESBA Exposure Draft, it will be helpful if the respondent's comments express this view.

Please refer to the “Guide for Respondents” contained in the IESBA’s Exposure Draft and respond to the specific questions therein.

Providing comments to the ISC on Canadian-specific circumstances

Once the IESBA finalizes these proposals, the ISC may take steps to recommend changes to Rule 204 such that it is no less stringent than the IESBA Code with respect to these proposals.

Accordingly, in addition to a copy of comments made directly to the IESBA, the ISC is encouraging responses to the Canadian-specific questions set out below. **All comments received by the ISC will be available on the ISC webpage after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.**

While comments are most helpful if they pertain specifically to the IESBA’s proposed revisions to the IIS in Parts 1, 4A and 4B of the IESBA Code, the PTC will consider all comments received.

1. Do you believe that there are any Canadian-specific circumstances that the ISC and PTC should consider with regard to these proposals? If so, please include your reasoning and describe their nature and extent. For example, if these proposals are approved by the IESBA, do you believe that there are Canadian-specific reasons for modifying the IESBA’s revisions before they are recommended for approval and proposed adoption by PCPAs?
2. Do you believe any of the requirements in the proposals could create implementation difficulties in Canada, despite the guidance provided? If so, please explain.

Appendix A

The IESBA Code is not fully adopted in Canada. In 2015, a Phase I CPA Code was approved and recommended for adoption by PCPAs. A project is underway to develop and recommend a Phase II CPA Code, including consideration of the IESBA's 2016 pronouncements related to non-compliance with laws and regulations (NOCLAR) in the context of Canadian legislation, regulation, and public interest.

Since 2016, the IESBA has made the following revisions that have not yet been recommended or approved for adoption in PCPAs codes of conduct.

- The IESBA issued a Revised and Restructured Code in 2018 to improve the clarity, usability and enforceability of the IESBA Code, thereby facilitating its adoption, effective implementation and consistent application. These revisions also included strengthened provisions related to Safeguards. The revised and restructured IESBA Code became effective June 15, 2019

In addition, the IESBA has completed the following projects to revise the IESBA Code since 2016:

Independence-related revisions

- **January 2017:** Changes to provisions addressing long association of personnel with an audit or assurance client, which contain a number of substantive improvements, including a strengthened partner rotation regime for audits of public interest entities. The amendments came into effect December 15, 2018, with an exception to facilitate the transition to the required cooling-off period of five consecutive years for engagement partners that expires December 15, 2023
- **July 2018:** Revisions to the IESBA Code pertaining to the offering and accepting of inducements, which set out a comprehensive framework that covers all forms of inducement and is applicable to both professional accountants in business and professional accountants in public practice in situations involving the offering or accepting of an inducement. The amendments came into effect June 15, 2019
- **January 2020:** Revisions to Part 4B of the IESBA Code, which update the IESBA Code to reflect terms and concepts used in the IAASB's International Standard on Assurance Engagements (ISAE) 3000 (Revised). Part 4B relating to independence for assurance engagements with respect to underlying subject matter covering periods became

effective for periods beginning on or after June 15, 2021; otherwise, it came into effect as of June 15, 2021

- **January 2021:** Revisions to address the objectivity of an engagement quality reviewer and other appropriate reviewers, which provide guidance that supports ISQM 2 in addressing the eligibility of an individual to serve in an EQR role, focusing on the critical attribute of objectivity. The amendments are effective December 15, 2022
- **April 2021:** Non-assurance Services (NAS) revisions, which relate to the provision of NAS to audit clients and ensure that all the NAS provisions in the IESBA Code are robust and of high quality for global application, thereby increasing confidence in the independence of audit firms. The amendments are effective December 15, 2022
- **April 2021:** Fee-related revisions, which are responsive to the public interest need to deal with fee-related matters, including those that impact or are perceived to impact auditor independence – both independence of mind and independence in appearance. The amendments are effective December 15, 2022

Revisions to the fundamental principles and conceptual framework in Part 1 of the IESBA Code

- **October 2021:** Revisions to promote the role and mindset expected of professional accountants. These revisions are to Sections 100, 110, 120, 220 and the Glossary to the IESBA Code and came into effect in December 2021

Revisions to Parts 2 and 3 of the IESBA Code (not independence-related)

- **July 2016:** Revisions to provide guidance for professional accountants on how best to act in the public interest when they become aware of a known or suspected illegal act (NOCLAR) came into effect July 15, 2017