

## Technology Project – Proposed Text (Clean Version)

This document includes a clean version of the Task Force’s proposals without mark-ups. Gray text is provided for information and context and is unchanged from the extant Code (i.e., the [2021 edition of the IESBA Handbook](#)).<sup>1</sup>

### **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:

- (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:

- (a) The exercise of sound judgment in applying professional knowledge and skills; and
- (b) The application of interpersonal, communication and organizational skills.

113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and technology-related developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

<sup>1</sup> The 2021 edition of the IESBA Handbook includes revisions arising from: Revised Part 4B which became effective in June 2021; revisions arising from the Role and Mindset project with will become effective in December 2021; as well as following revisions that will become effective in December 2022:

- Revisions relating to the objectivity of an engagement quality reviewer and appropriate reviewers,
- The revised non-assurance service (NAS) provisions to the Code, and
- The revised fee-related revisions to the Code.

The 2021 IESBA Handbook is accessible on the [IESBA website](#) and IFAC’s recently launched [e-International Standards](#).

**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 services or activities, aware of the limitations inherent in the services or activities and provide them with sufficient information to understand 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 as a result of professional and business relationships. An accountant shall:

- (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;
- (d)** Not disclose confidential information acquired as a result 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;
- (e)** Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
- (f)** Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
- (g)** Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

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

114.1 A2 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 to disclose confidential information or when such disclosure might be appropriate:

- (a)** Disclosure is required by law, 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;
- (b) Disclosure is permitted by law and is authorized by the client or the employing organization;
- (c) There is a professional duty or right to disclose, when not prohibited by law:
- (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.

114.1 A3 In deciding whether to disclose 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 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 include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed means of communicating the information.
- Whether the parties to whom the information is to be addressed or access is to be granted are appropriate recipients.

**R114.2** 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 as a result of a professional or business relationship.

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## SECTION 120

### THE CONCEPTUAL FRAMEWORK

#### Introduction

- 120.1 The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.
- 120.2 The conceptual framework specifies an approach for a professional accountant to:
- (a) Identify threats to compliance with the fundamental principles;
  - (b) Evaluate the threats identified; and
  - (c) Address the threats by eliminating or reducing them to an acceptable level.

#### Requirements and Application Material

##### General

- R120.3** The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.
- 120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:
- (a) Part 2 – *Professional Accountants in Business*;
  - (b) Part 3 – *Professional Accountants in Public Practice*; and
  - (c) *International Independence Standards*, as follows:
    - (i) Part 4A – *Independence for Audit and Review Engagements*; and
    - (ii) Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

**R120.4** 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.

- 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 A6.

### *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.

### *Reasonable and Informed Third Party*

120.5 A6 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.

### **Identifying Threats**

**R120.6** The professional accountant shall identify threats to compliance with the fundamental principles.

120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the accountant acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant's judgment or behavior;
- (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made, or an activity performed by the accountant or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;
- (c) Advocacy threat – the threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised;

- (d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.

120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

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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.

### *Complex Circumstances*

- 120.13 A1 The circumstances in which professional accountants carry out professional activities vary considerably. Some professional activities might involve complex circumstances that increase the challenges when identifying, evaluating and addressing threats to compliance with the fundamental principles.
- 120.13 A2 Such increased challenges arise where the relevant facts and circumstances involve:
- (a) elements that are uncertain, and
  - (b) multiple variables and assumptions;
- which are interconnected or interdependent.
- 120.13 A3 The evolving interaction of such variables and assumptions need to be managed as they develop. Actions that a professional accountant might take to manage and mitigate the challenges arising from complex circumstances include:
- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.
  - Using technology to analyze relevant data to better inform the accountant's judgment.
  - Ensuring that the firm or employing organization and, if appropriate, relevant stakeholders are aware of the inherent uncertainties or difficulties arising from the facts and circumstances.
  - Monitoring any developments or changes in the circumstances and assessing whether they might impact any judgments the accountant has made.

### *Organizational Culture*

- 120.14 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.
- 120.14 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.



120.14 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) Demonstrate ethical behavior in dealings with business organizations and individuals with which they or their firm or 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**

##### **Introduction**

- 200.1 This Part of the Code sets out requirements and application material for professional accountants in business when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in business, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in business to be alert for such facts and circumstances.
- 200.2 Investors, creditors, employing organizations and other sectors of the business community, as well as governments and the general public, might rely on the work of professional accountants in business. Professional accountants in business might be solely or jointly responsible for the preparation and reporting of financial and other information, on which both their employing organizations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 200.3 A professional accountant in business might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organization. The legal form of the relationship of the accountant with the employing organization has no bearing on the ethical responsibilities placed on the accountant.
- 200.4 In this Part, the term “professional accountant” refers to:
- (a) A professional accountant in business; and
  - (b) An individual who is a professional accountant in public practice when performing professional activities pursuant to the accountant’s relationship with the accountant’s firm, whether as a contractor, employee or owner. More information on when Part 2 is applicable to professional accountants in public practice is set out in paragraphs R120.4, R300.5 and 300.5 A1.

## 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 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.

200.6 A2 The use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. Considerations that are relevant when identifying such threats when a professional accountant relies upon the output from technology include:

- Whether an understanding of how the technology functions is available.
- Whether the technology is appropriate for the purpose for which it is to be used.
- Whether the accountant has the professional competence to understand, use and explain the output from the technology.
- Whether the technology incorporates expertise or judgments attributable to the accountant or the employing organization.
- Whether the technology was designed or developed by the accountant or employing organization and therefore might create a self-interest or self-review threat.

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## SECTION 220

### PREPARATION AND PRESENTATION OF INFORMATION

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#### Requirements and Application Material

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#### Relying on the Work of Others or on Technology

**R220.7** A professional accountant who intends to rely on:

- (a) The work of others, whether internal or external to the employing organization, or other organizations, or
- (b) Technology, whether developed internally or provided by third parties,

shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider in determining whether reliance on the work of others is reasonable 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.

220.7 A2 Factors to consider when determining whether reliance on technology is reasonable include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output from the technology.
- The professional accountant's ability to understand the output from the technology for the context in which it is to be used.
- Whether the technology is established and effective for the purpose intended.
- Whether new technology has been appropriately tested and evaluated for the purpose intended.
- The reputation of the developer of the technology if acquired from or developed by an external vendor.
- The employing organization's oversight of the:
  - Design, development, implementation, operation, maintenance, monitoring or updating of the technology; and
  - Data that is to be used by the technology.

220.7 A3 Another consideration is whether the professional accountant’s position within the employing organization impacts the accountant’s ability to obtain information in relation to the factors required to determine whether reliance on the work of others or on technology is reasonable.

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## **PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

### **SECTION 300**

#### **APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

##### **Introduction**

300.1 This Part of the Code sets out requirements and application material for professional accountants in public practice when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in public practice, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in public practice to be alert for such facts and circumstances.

300.2 The requirements and application material that apply to professional accountants in public practice are set out in:

- Part 3 – *Professional Accountants in Public Practice*, Sections 300 to 399, which applies to all professional accountants in public practice, whether they provide assurance services or not.
- *International Independence Standards* as follows:
  - Part 4A – *Independence for Audit and Review Engagements*, Sections 400 to 899, which applies to professional accountants in public practice when performing audit and review engagements.
  - Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, Sections 900 to 999, which applies to professional accountants in public practice when performing assurance engagements other than audit or review engagements.

300.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.

##### **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.

### 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.

300.6 A2 The use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. Considerations that are relevant when identifying such threats when a professional accountant relies upon the output from technology include:

- Whether an understanding of how the technology functions is available.
- Whether the technology is appropriate for the purpose for which it is to be used.
- Whether the accountant has the professional competence to understand, use and explain the output from the technology.
- Whether the technology incorporates expertise or judgments attributable to the firm.
- Whether the technology was designed or developed by the firm and therefore might create a self-interest or self-review threat.

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## **SECTION 320**

### **PROFESSIONAL APPOINTMENTS**

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#### **Requirements and Application Material**

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##### **Using the Work of an Expert or Technology**

**R320.10** When a professional accountant intends to use the work of an expert or technology 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.

**320.10 A2** Factors to consider when determining whether the use of technology is reasonable include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output from the technology.
- The professional accountant's ability to understand the output from the technology for the context in which it is to be used.
- Whether the technology is established and effective for the purpose intended.
- Whether new technology has been appropriately tested and evaluated for the purpose intended.
- The reputation of the developer of the technology if acquired from or developed by an external vendor.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology.
- The appropriateness of data that is to be used by the technology.

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## **INTERNATIONAL INDEPENDENCE STANDARDS**

### **PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

#### **SECTION 400**

##### **APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

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## Requirements and Application Material

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### General

**R400.11** A firm performing an audit engagement shall be independent.

**R400.12** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

### Prohibition on Assuming Management Responsibilities

**R400.13** A firm or a network firm shall not assume a management responsibility for an audit client.

400.13 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.

400.13 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.

400.13 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 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.

400.13 A4 Subject to compliance with paragraph R400.14, 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.

**R400.14** 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.

400.14 A1 When technology is used in performing a professional activity for an audit client, the requirements in paragraphs R400.13 and R400.14 apply regardless of the nature or extent of such use.

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## **SECTION 520**

### **BUSINESS RELATIONSHIPS**

#### **Introduction**

520.1 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.

520.2 A close business relationship with an audit client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **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, distributes or markets the client's products or services, or the client sells, distributes or markets the firm or a network firm's products or services.
- Arrangements under which the firm or a network firm develops jointly with an audit client, products or solutions which one or both parties sell or license to third parties.

#### **Firm, Network Firm, Audit Team Member or Immediate Family Business Relationships**

**R520.4** A firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit team member, as applicable.

520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the audit client or its management and the immediate family of an audit team member.

#### **Common Interests in Closely-Held Entities**

**R520.5** A firm, a network firm, an audit team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when an audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

#### **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.

### **Selling or Licensing Technology**

520.7 A1 If a firm or a network firm sells or licenses technology to an audit client that has been designed or developed by a firm or a network firm, or incorporates a firm or a network firm's expertise or judgment, the requirements and application material of Section 600 apply.

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## **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 also apply in those circumstances where:
- (a) A firm or a network firm uses technology to provide a non-assurance service to an audit client; or
  - (b) A firm or a network firm sells or licenses technology to an audit client that has been designed or developed by a firm or a network firm, or incorporates a firm or a network firm's expertise or judgment.

## Requirements and Application Material

### General

#### *Non-Assurance Services Provisions in Laws or Regulations*

600.6 A1 Paragraphs R100.6 to 100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to audit clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

#### *Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service*

600.7 A1 When a firm or a network firm provides a non-assurance service to an audit client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R400.14 have been complied with.

#### *Accepting an Engagement to Provide a Non-Assurance Service*

**R600.8** Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

#### *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. R400.13 to R400.14).
- 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.

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## **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**

#### **General**

601.2 A1 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Determining accounting policies and the accounting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
  - Purchase orders.
  - Payroll time records.
  - Customer orders.
- Originating or changing journal entries.

- Determining or approving the account classifications of transactions.

### Description of Service

601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:

- Preparing accounting records or financial statements.
- Recording transactions.
- Providing payroll services.
- Resolving account reconciliation problems.
- Converting existing financial statements from one financial reporting framework to another.

### Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

#### *All Audit Clients*

601.4 A1 Providing accounting and bookkeeping services to an audit client creates a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion.

#### *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 how the technology functions and whether the technology is based on expertise or judgment attributable to the firm or a 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 R400.14 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.

*Audit Clients that are Public Interest Entities*

**R601.6** A firm or a network firm shall not provide accounting and bookkeeping services to an audit client that is a public interest entity.

**R601.7** As an exception to paragraph R601.6, a firm or a network firm may prepare statutory financial statements for a related entity of a public interest entity audit client included in subparagraph (c) or (d) of the definition of a related entity provided that:

- (a) The audit report on the group financial statements of the public interest entity has been issued;
- (b) The firm or network firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to independence;
- (c) The firm or network firm does not prepare the accounting records underlying the statutory financial statements of the related entity and those financial statements are based on client approved information; and
- (d) The statutory financial statements of the related entity will not form the basis of future group financial statements of that public interest entity.



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## **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, and customization.
- Operating, maintaining, monitoring, or updating IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data.

606.2 A2 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 R400.13 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, 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 of the IT system;
- (c) The client evaluates the adequacy and results of the design, development, implementation, operation, maintenance, monitoring, or updating 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 system services that result in the assumption of a management responsibility include where a firm or a network firm:

- Arranges facilities to host, or provides services in relation to the hosting of, an audit client's data.
- Manages network security, business continuity or disaster recovery services.

606.3 A2 The receipt and retention of data provided by an audit client 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 might 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 IT systems.
- Supporting an audit client's IT systems, including software applications, or network performance.
- Implementing "off-the-shelf" accounting or financial information reporting software that was not 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).

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

### **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.

900.2 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.

900.3 ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethics standards. In addition, ISAEs and ISAs establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an assurance team) in accordance with ISQC 1. Additionally, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.

900.4 Independence is linked to the principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or an assurance team member’s integrity, objectivity or professional skepticism has been compromised.

In this Part, references to an individual or firm being “independent” mean that the individual or firm has complied with the provisions of this Part.

900.5 When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing assurance engagements other than audit or review engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

900.6 This Part describes:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce the threats to an acceptable level.

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## 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 part of an entity's system of internal control.

900.13 A4 Examples of taking responsibility over an assurance client's system of internal control include where a firm:

- Arranges facilities to host, or provides services in relation to the hosting of, an assurance client's data.
- Manages network security, business continuity or disaster recovery services.

900.13 A5 The receipt and retention of data provided by the assurance client to enable the provision of an assurance engagement for that client 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.

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## SECTION 920

### BUSINESS RELATIONSHIPS

#### Introduction

920.1 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.

920.2 A close business relationship with an assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### 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, distributes or markets the client’s products or services, or the client sells, distributes or markets the firm’s products or services.
  - Arrangements under which a firm develops jointly with the assurance client, products or solutions which one or both parties sell or license to third parties.

## Firm, Assurance Team Member or Immediate Family Business Relationships

- R920.4** A firm or an assurance team member shall not have a close business relationship with an assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm or the assurance team member, as applicable.
- 920.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the assurance client or its management and the immediate family of an assurance team member.

## 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.

## **Selling or Licensing Technology**

920.6 A1 If a firm sells or licenses to an assurance client technology that has been designed or developed by the firm, or incorporates the firm's expertise or judgment, the requirements and application material of Section 950 apply.

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## **SECTION 950**

### **PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT 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 also apply in those circumstances where:

- (a) A firm uses technology to provide a non-assurance service to an assurance client; or
- (b) A firm sells or licenses technology to an assurance client that has been designed or developed by a firm, or incorporates a firm's expertise or judgment.

#### **Requirements and Application Material**

##### **General**

##### **Risk of Assuming Management Responsibilities When Providing a Non-Assurance Service**

950.5 A1 When a firm provides a non-assurance service to an assurance client, there is a risk that a firm will assume a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement unless the firm is satisfied that the requirements in paragraphs R900.13 and R900.14 have been complied with.



### Accepting an Engagement to Provide a Non-Assurance Service

**R950.6** Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

### 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.

### Materiality in Relation to an Assurance Client's Information

950.8 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an assurance client. The concept of materiality in relation to an assurance client's subject matter information is addressed in *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

## Multiple Non-assurance Services Provided to the Same Assurance Client

950.9 A1 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

### 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 IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls.

### 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.

### Addressing Threats

950.12 A1 Paragraphs 120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

950.12 A2 Threats to independence created by providing a non-assurance service or multiple services to an assurance client vary depending on facts and circumstances of the assurance engagement

and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

950.12 A3 Examples of actions that might be safeguards to address such threats include:

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

950.12 A4 Safeguards might not be available to reduce the threat created by providing a non-assurance service to an assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm to:

- (a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threat;
- (b) Decline or end the service that creates the threat that cannot be eliminated or reduced to an acceptable level; or
- (c) End the assurance engagement.

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## GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

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Conceptual  
framework

*The 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 in the public domain.

Contingent fee

A fee calculated on a predetermined basis ...