

June 16, 2022

Mr. Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017 USA

Dear Mr. Siong:

Re: February 2022 Exposure Draft, Proposed Technology-related Revisions to the Code

I am writing on behalf of the Public Trust Committee (PTC) of the Canadian Chartered Professional Accountant profession in response to your request to comment on the Exposure Draft entitled *Proposed Technology-related Revisions to the Code* (“the Exposure Draft”).

Canada’s accounting profession is regulated by provincial CPA bodies and is comprised of more than 220,000 members both at home and abroad. The provincial CPA regulatory bodies are statutorily responsible for their respective codes of conduct including the independence standards. CPA Canada is a member of IFAC, represents the profession nationally and internationally, and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations, and government. The provincial CPA regulatory bodies and CPA Canada collaborate through the PTC to recommend policies and strategies to uphold the public’s confidence and trust in the profession.

One of the responsibilities of the PTC is to monitor international developments with respect to the International Ethics Standards Board for Accountants (IESBA) Code of Ethics (“the Code”) and develop responses to changes on behalf of the Canadian CPA profession.

Our views

We commend the IESBA for its efforts to enhance the technology-related provisions in the Code to ensure ongoing relevance as technology evolves and impacts the work of the global accountancy profession. We are broadly supportive of the proposed revisions and appreciate the coordination efforts undertaken with the IAASB in the development of the proposals contained in the Exposure Draft and the provision of the webinar to provide additional context and address questions.

Notwithstanding our overall support for these proposals and our responses to your specific

questions, where we have recommended clarification or additional guidance to encourage consistency in the interpretation and application of the proposals, we encourage the IESBA to also consider our comments below related to the consultation process more broadly.

Comment periods for IESBA Exposure Drafts

The PTC is grateful that the IESBA extended the comment period to 120-days with respect to this Exposure Draft. However, as outlined in our previous communications with the IESBA, the PTC would like to reemphasize that the customary 90-day comment period is highly challenging, especially in a multi-jurisdictional country such as Canada. The challenge of responding within a relatively short time frame is even more acute in our particular circumstances, as our due process for providing comments includes the exposure of IESBA proposals to revise the International Independence Standards for public comment in Canada. It is also noteworthy that the IESBA has released more than one set of proposed revisions for public comment, with tight deadlines for responding.

As the IESBA continues its important work in encouraging and promoting global adoption of the Code, we recommend implementing a public consultation period longer than 90-days. The additional time would result in more comprehensive and considered input and lead to a more rigorous standard-setting process in the public interest. This is particularly important in jurisdictions such as Canada where the proposals must be considered in the context of local laws and regulation and may require translation for public exposure. We are concerned that a 90-day comment period does not allow sufficient time to coordinate and prioritize the resources required for robust consultation in all jurisdictions and request that the IESBA increase the length of comment periods going forward.

Webinars and other resources related to IESBA Exposure Drafts

The IESBA's webinars are found by our committees to be extremely helpful in understanding the IESBA's process in developing its proposals in the public interest, as well as the substance and implications of the proposals to the Code itself. Given the IESBA's short comment periods and the usefulness of these webinars to our committees in responding to the IESBA's proposals, we request that going forward the IESBA announce webinar dates in conjunction with the release of the relevant exposure draft. This would greatly assist our committees in understanding the proposals and providing feedback to the IESBA.

Our responses to your questions

Please find below our responses to the requested matters for input from Respondents as outlined in the Explanatory Memorandum's Guide for Respondents.

Technology-related Considerations When Applying the Conceptual Framework

- 1. Do you support the proposals which set out the thought process to be undertaken when considering whether the use of technology by a PA might create a threat to compliance with the fundamental principles in proposed paragraphs 200.6 A2 and 300.6 A2? Are there other considerations that should be included?**

The PTC has overall support for the proposals setting out the thought process to be undertaken

when considering whether the use of technology by a Professional Accountant (PA) might create a threat to compliance with the fundamental principles proposed in paragraphs 200.6 A2 and 300.6 A2.

However, we recommend the following clarifying commentary or examples to provide precision, and better context enhancing enforceability:

- In relation to proposed paragraphs 200.6 A2 and 300.6 A2, the PTC recommends further highlighting the subtle differences in guidance for professional accountants in business (PAIBs) and professional accountants in public practice (PAPPs) with examples or references to specific threats.
- With respect to each bullet contained in 200.6 A2 and 300.6 A2, the PTC recommends that the IESBA provide specific examples of how each criterion might create threats to compliance with fundamental principles and how they should be addressed. This could be done directly in the bullet, or as non-authoritative guidance.
- The opening sentence of proposed paragraph 200.6 A2 would benefit from a clear definition of the term “use of technology.” Although the second sentence identifies it as “when a PA relies upon the output from the technology”, it is important to know if there are any other circumstances for which “use of technology” is contemplated.
- The second bullet point in proposed paragraph 200.6 A2 would benefit from an explanation of how one determines if the technology is appropriate for the purpose for which it is used. For example, noting that the technology been tested or otherwise certified for this use.

The fourth bullet in proposed paragraph 200.6 A2 would benefit from an example of what is meant by “incorporates expertise or judgements of the accountant or the employing organization” and linking it directly to the relevant threat(s). Finally, the PTC notes that in proposed paragraph 300.6 A2, bullets four and five do not incorporate the PA or the PA’s expertise or judgment, only the firm. This is different than proposed paragraph 200.6 A2, which refers to **both** the PA and the employing organization. It is not clear that references to the firm in Section 300 are intended to be all-encompassing since reference to the PA is not included in the proposed revisions to this paragraph.

Determining Whether the Reliance on, or Use of, the Output of Technology is Reasonable or Appropriate for the Intended Purpose

- 2. Do you support the proposed revisions, including the proposed factors to be considered, in relation to determining whether to rely on, or use, the output of technology in proposed paragraphs R220.7, 220.7 A2, R320.10 and 320.10 A2? Are there other factors that should be considered?**

The PTC has overall support for the proposed revisions to paragraphs R220.7, 220.7 A2, R320.10 and 320.10 A2. However, as outlined below we found several instances in which more clarity would benefit the reader and improve enforceability.

Specifically, the PTC recommends including a definition of “technology” and “IT services” to provide the reader with a clear understanding of these concepts and make the guidance less abstract and more enforceable.

The PTC also recommends the IESBA to provide additional examples in relation to proposed paragraphs 220.7 A2 bullet three and bullet seven, to help clarify what is meant by “ability to understand the output” and “oversight of... the technology”. Specifically in relation to “ability to understand”, we noted that the terminology differs from “professional competence to understand” as outlined in 200.6 A2 and 300.6 A2. Clarity around what is meant by each and why different terminology was chosen would be useful.

The PTC recommends that proposed paragraph 220.7 A2 be expanded to include both specific examples for each bullet point, as well as concrete steps that the PA could take to apply the criteria, such as what level of enquiry and judgement should be undertaken to satisfy themselves in relation to these factors and how this might be different based on a PAIB’s area of accountability or seniority. Furthermore, technology is a challenging topic, and we believe it is important for PAs to collaborate when an area of expertise is outside of one’s skillset. Therefore, we also recommend the addition of a final paragraph after the bulleted listing which encourages PAs to seek assistance from others as needed.

We also note that proposed paragraph 220.7 A2 and 320.10 A2 bullet four requires further explanation or examples of how PAIBs and PAPPs determine whether a technology is “established” and effective for the purpose intended. The context in which the term “established” will be evaluated is not clear as currently written.

The PTC recommends the IESBA provide clarification of the reason for the difference in terminology used in proposed paragraphs 220.7 A2 and 320.10 A2 when introducing the bulleted lists (“...reliance on the output of technology...” versus “...use the output of technology...”). We assume that this difference in terminology stems from the difference in the preceding section titles, for consistency within each section. However, we are nonetheless concerned that it may imply a different application between PAIBs and PAPPs.

We recommend that proposed paragraph 220.7 A3 be expanded to provide better context around “professional accountant’s position” to help identify who exactly is targeted by this paragraph. For example, senior professional accountants will have greater ability and opportunity to access information than more junior staff who may not be in a position to obtain the necessary information for reliance on the technology. Therefore, the IESBA should consider including such a disclaimer for junior level staff, or simply specify it applies to senior level PAs.

Consideration of “Complex Circumstances” When Applying the Conceptual Framework

3. Do you support the proposed application material relating to complex circumstances in proposed paragraphs 120.13 A1 to A3?

The PTC is supportive of the proposed application material relating to complex circumstances in proposed paragraphs 120.13 A1 to A3.

4. Are you aware of any other considerations, including jurisdiction-specific translation considerations (see paragraph 25 of the explanatory memorandum), that may impact the proposed revisions?

The PTC is not aware of other considerations, including jurisdiction-specific translation considerations, that may impact the proposed revisions.

Professional Competence and Due Care

5. Do you support the proposed revisions to explain the skills that PAs need in the digital age, and to enhance transparency in proposed paragraph 113.1 A1 and the proposed revisions to paragraph R113.3, respectively?

Overall, the PTC is supportive of the proposed revisions to paragraphs 113.1 A1 and R113.3 but recommend that proposed paragraph 113.1 A1 more clearly refer to information and communication technology soft skills to help it align with the recently revised International Education Standards. Furthermore, as currently worded, the proposed paragraph creates an unintended disconnect between paragraph 113.1 A2 in the extant Code which more clearly addresses technology-specific professional competencies.

In relation to proposed paragraph R113.3, the PTC recommends adding guidance or examples to better clarify what is meant by the term “sufficient information”. This will help PAs understand what IESBA is expecting of them and how they can fulfill their responsibilities to the client, the employing organization, or other users of the accountant’s professional services or activities. For example, guidance or examples can help PAs understand and implement the Rule, by encouraging documentation of any limitations inherent in services or activities provided by the PA, and sufficient information to understand the implications.

6. Do you agree with the IESBA not to include additional new application material (as illustrated in paragraph 29 of the explanatory memorandum) that would make an explicit reference to standards of professional competence such as the IESs (as implemented through the competency requirements in jurisdictions) in the Code?

The PTC agrees with the IESBA not to include new application material with an explicit reference to standards of professional competence such as the International Education Standards, in the Code, since there are many different standards and rules that professional accountants must adhere to.

Confidentiality and Confidential Information

7. Do you support (a) the proposed revisions relating to the description of the fundamental principle of confidentiality in paragraphs 114.1 A1 and 114.1 A3; and (b) the proposed Glossary definition of “confidential information?”

(a) The PTC is generally supportive of the proposed revisions relating to the description of the fundamental principle of confidentiality in paragraphs 114.1 A1 and 114.1 A3, but have several recommendations as outlined below.

In reviewing the proposed adjustments, we noted two paragraphs in the extant section R114.1 that would benefit from a slight wording change. First, in section R114.1 (b) we suggest adding a specific wording to address the fact that even within a firm, there may need to be a restriction on what information is shared with other members of the same firm. Secondly, in section R114.1 (g), we also recommend adding the words “comply with and” before “...respect the accountant’s duty of confidentiality.” This would help strengthen the wording and capture not just the accountant, but also the accountant’s employees.

The PTC also recommends strengthening the wording in 114.1 A1 from “appropriate action to secure such information...” to “appropriate action to secure **and protect** such information...”. The addition of the word protect helps align the wording with standard privacy legislation and mitigate the risk of increasingly prevalent global data breaches.

We also recommend defining what is meant by “public domain” in the definition of confidential information, as this is subject to different interpretations.

In relation to proposed paragraph 114.1 A3, the PTC is of the view that it should not be used to prevent the disclosure of confidential information pursuant to paragraph 114.1 A2. We recommend a statement to this effect be added.

- (b) The PTC is of the view that the proposed Glossary definition of “confidential information” may not be sufficient to create a consistent, widely understood threshold of what it constitutes. In some jurisdictions, the word “public domain” is often associated with copyright, which is not the intended meaning within this definition. We noted that the proposed definition would benefit from clarity on IESBA’s intended meaning of “public domain”.

Further to this point, we recommend using a more specific term than “public domain” to define “confidential information”, one option could be “not otherwise legally accessible by the public”. Implementing the above recommendations will afford readers more clarity into IESBA’s intended meaning.

- 8. Do you agree that “privacy” should not be explicitly included as a requirement to be observed by PAs in the proposed definition of “confidential information” in the Glossary because it is addressed by national laws and regulations which PAs are required to comply with under paragraphs R100.7 to 100.7 A1 of the Code (see subparagraph 36(c) of the explanatory memorandum)?**

The PTC agrees that “privacy” should not be explicitly addressed. Privacy laws are complex and vary greatly from jurisdiction to jurisdiction and there is a possibility of several laws and regulations being applicable to any scenario. Explicitly referring to privacy could contradict specific laws and regulations to which PAs are required to comply with. For these reasons, the PTC is in support of no additional explicit requirements to be observed by PAs.

Independence (Parts 4A and 4B)

9. Do you support the proposed revisions to the International Independence Standards, including:

(a) The proposed revisions in paragraphs 400.16 A1, 601.5 A2 and A3 relating to “routine or mechanical” services.

Overall, the PTC supports the IESBA’s intent in proposing the revisions in paragraphs 400.16 A1, 601.5 A2 and A3 relating to “routine or mechanical” services, to clarify that automated services are not always “routine or mechanical.”

However, we note that while proposed paragraph 601.5 A2 makes clear that professional judgement is required to determine whether an automated service is routine or mechanical, the IESBA has not made a similar clarification while providing the list of examples of services that might be regarded as routine or mechanical in proposed paragraph 601.5 A3.

The PTC notes that the paragraphs 601.5 A3 and 601.5 A2 can better complement each other if IESBA further strengthens the paragraph 601.5 A3 by adding another sentence to clarify that the examples provided should be further evaluated in the context of proposed paragraph 601.5 A2, to ensure that no management responsibility is assumed and that the services performed are in fact routine and mechanical.

In addition, we recommend that the IESBA considers making reference, within these proposed paragraphs, to Subsection 606 – Information Technology Systems Services, specifically to the Risk of Assuming Management Responsibility and Potential Threats Arising from the Provision of IT Systems Services, which provides helpful clarification.

We observe that rapidly evolving technology and related business processes could lead to lists of examples such as those in proposed paragraph 601.5 A3 losing relevance over time, because they are no longer exhaustive or become otherwise outdated. We think that a rebuttable presumption may be useful for the IESBA to consider in future revisions, in cases when a list of factors or circumstances that PAs should evaluate would still require the application of significant professional judgement. The use of a rebuttable presumption would, in our view, force consideration of the independence threat, even when services appear to be routine or mechanical, for example.

(b) The additional proposed examples to clarify the technology-related arrangements that constitute a close business relationship in paragraph 520.3 A2. See also paragraphs 40 to 42 of the explanatory memorandum.

The PTC supports the additional proposed examples to clarify the technology-related arrangements that constitute a close business relationship. Our stakeholders also suggest the addition of non-authoritative guidance material on how these examples apply in practice.

- (c) The proposed revisions to remind PAs providing, selling, reselling or licensing technology to an audit client to apply the NAS provisions in Section 600, including its subsections (see proposed paragraphs 520.7 A1 and 600.6).**

The PTC agrees with the proposed revisions because it may not be obvious that the non-assurance services (NAS) provisions apply in these circumstances.

10. Do you support the proposed revisions to subsection 606, including:

- (a) The prohibition on services in relation to hosting (directly or indirectly) of an audit client's data, and the operation of an audit client's network security, business continuity and disaster recovery function because they result in the assumption of a management responsibility (see proposed paragraph 606.3 A1 and related paragraph 606.3 A2)?**

The PTC is supportive of the proposed revisions in paragraphs 606.3 A1 and A2 to list prohibited IT system services, because we think this provides further examples of technology related services that are prohibited.

We do, however, recommend clarifying “services in relation to the hosting (directly or indirectly) of an audit client's data” in proposed paragraph 606.3 A1 by providing examples specifically in relation to indirect hosting (e.g. on a cloud provider's servers), to ensure consistency of interpretation. We also recommend that these examples further clarify that the threat to independence arises from hosting client data related to the subject matter of the engagement, while hosting a system that does not contain or generate data related to this subject matter is not a threat. The PTC recognizes that the above points are clarified in paragraph 52 of the explanatory memorandum and recommend incorporating some of those points directly into the proposed paragraph.

We also think that proposed paragraph 606.3 A2 would be clearer in expressing the IESBA's intent in making these revisions if it read: “When providing a permissible service to a client does not result in the assumption of management responsibility, the collection, receipt and retention of data provided by an audit client is appropriate.”

- (b) The withdrawal of the presumption in extant subparagraph 606.4 A2(c) and the addition of “Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm” as an example of an IT systems service that might create a self-review threat in proposed paragraph 606.4 A3?**

We support the withdrawal of the presumption in extant subparagraph 606.4 A2 of IT systems services that do not usually create a threat, since software systems have evolved where customization is often part of the implementation process and may therefore create self-review threats.

- (c) The other examples of IT systems services that might create a self-review threat in proposed paragraph 606.4 A3?**

The PTC agrees with the IESBA's proposals related to other examples of IT systems services that might create a self-review threat.

11. Do you support the proposed changes to Part 4B of the Code?

Overall, the PTC agrees with the IESBA’s proposed changes to Part 4B of the Code. However, we observe that, given the proposed addition of the broad term of environmental, social, and governance disclosures to paragraph 900.1, which would capture an extensive and growing list of disclosures, it is not clear why “greenhouse gas statements” still needs to be specifically identified in this paragraph.

Other Comments

- The PTC observes that the Code at times provides a list of considerations without stating if it is a complete list, or just a sample. For example, proposed paragraphs 114.1 A1, 200.6 A2, 220.7 A2, 300.6 A2 and 320.10 A2. We recommend that such lists clearly indicate if they are intended to be exhaustive or non-exhaustive.
- The PTC also recommends a change to the wording in proposed paragraph 114.1 A1 to include the word “retention” after “storage”. In Canada, the two words have different connotations, and it is common for companies to have specific “retention” policies rather than “storage” policies.

We thank you for the opportunity to comment on this Exposure Draft and we appreciate that further revisions to these proposals may result through the feedback provided by stakeholders and as IESBA continues its close coordination regarding this and other related matters with the IAASB.

Yours truly,



Jamie Midgley, FCPA, FCA
Chair, Public Trust Committee