

**Meeting:** IESBA CAG

**Meeting Location:** New York

**Meeting Date:** March 6, 2023

## Agenda Item A-2

### Report Back – Technology Project

#### Objective of Agenda Item

1. To note the report-back on the September 2022 CAG discussion.

#### Project Background and Final Outcome

2. The genesis of the technology project was a focus on developments in technology as a high priority area in the IESBA's [Strategy Work Plan 2019-2023](#), consistent with strategic input from the Public Interest Oversight Board (PIOB).
3. The [project proposal](#), approved in March 2020, was informed by the recommendations contained in the IESBA Technology Working Group's [Phase 1 Report](#), which summarized the impact of trends and developments in artificial intelligence (AI), big data, and data analytics on the ethical behavior of professional accountants in business (PAIBs) and professional accountants in public practice (PAPPs).
4. Since then, the IESBA's technology project was informed by:
  - Technology-related feedback on the January 2020 non-assurance services (NAS) [Exposure Draft](#).
  - [Feedback](#) on two October 2020 technology [surveys](#) on the topics of "Technology and Complexity in the Professional Environment" and "The Impact of Technology on Auditor Independence."
  - Stakeholder responses to the IESBA's Technology Exposure Draft (ED).
  - The insights and observations of the Technology Working Group's Phase 2 fact-finding, including some of the recommendations set out in the November 2022 [Phase 2 Final Report](#).<sup>1</sup>
  - Targeted stakeholder input together with advice from the IESBA CAG and the IESBA–National Standard Setters (NSS) liaison group.

#### Technology ED

12. On February 18, 2022, the IESBA issued the proposed revisions to the Code as set out in the Exposure Draft, [Proposed Technology-related Revisions to the Code](#) (ED) with a comment deadline

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<sup>1</sup> The Technology Phase 2 fact-finding aimed to identify and assess the potential impact of technology on the behavior of PAs and the relevance and applicability of the Code. Focused on the most pressing emerging, disruptive, and transformative technologies, it involved desktop research and stakeholder interviews and other outreach. The Phase 2 Final Report provides an overview of the technology landscape, as well as key themes, conclusions, insights, and recommendations for the IESBA and others.

of June 20, 2022. The ED proposed amendments to guide the ethical mindset and behavior of PAIBs and PAPPs as they deal with changes brought by technology to their work processes and the content of the services they provide.

13. [50 comment letters](#) were received across a wide range of stakeholder groups and geographical regions. In addition to two Monitoring Group (MG)<sup>2</sup> members, respondents included six regulators and audit oversight bodies, 27 professional accountancy organizations (PAOs),<sup>3</sup> two independent NSS,<sup>4</sup> nine firms, and four others, including the IFAC Small and Medium Practices Advisory Group (IFAC SMP AG) and an AI software developer.
13. On balance, respondents across stakeholder groups and regions expressed clear support for the proposals. They also suggested various drafting improvements and shared some concerns and a number of other comments, including in areas where in their view clarification was needed.
14. During the September 2022 meeting, CAG Representatives were provided an overview of the key comments received on the ED and discussed the Task Force's proposals to address them. The Appendix to this paper provides a history of previous discussions with the CAG on this topic.

#### *Approval of Final Pronouncement*

15. In revising the ED proposals to address matters raised by respondents to the ED, the Task Force also took into account input from targeted outreach with representatives of the:
  - International Auditing and Assurance Standards Board (IAASB) Technology Consultative Group.
  - IFIAR Standards Coordination Working Group (IFIAR SCWG).
  - IOSCO Committee on Issuer Accounting, Audit and Disclosure (IOSCO Committee 1).
  - Forum of Firms.
5. The IESBA unanimously approved the technology-related revisions to the Code at its November–December 2022 meeting.<sup>5</sup> The final pronouncement is expected to be released by mid-April 2023, subject to PIOB approval of the pronouncement.
14. The technology-related revisions to the Code:
  - Draw special attention to the professional competence and confidentiality imperatives of the digital age.
  - Address the ethical dimension of PAs' reliance on, or use of, the output of technology in carrying

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<sup>2</sup> The MG respondents were the International Forum of Independent Audit Regulators (IFIAR) and the International Organization of Securities Commissions (IOSCO).

<sup>3</sup> For the purpose of analyzing the ED comment letters, the IESBA deemed a PAO to be a member organization of professional accountants, of firms, or of other PAOs. PAOs include, but are not limited to, members of the International Federation of Accountants (IFAC). PAOs might have full, partial, or shared responsibility for setting national ethics standards, including independence requirements, in their jurisdictions.

<sup>4</sup> Independent NSS have a mandate to set national audit and ethics standards, including independence requirements, and do not belong to PAOs.

<sup>5</sup> Reflecting on the progress of the project, the IESBA approval was advanced by three months ahead of the timeline presented to CAG Representatives during the September 2022 CAG meeting.

out their work.

- Further enhance considerations relating to threats arising from the use of technology as well as considerations relating to complexity when exercising professional judgement in applying the Code's conceptual framework.
- Strengthen and clarify the International Independence Standards (IIS) with respect to technology-related NAS that firms may provide to their audit clients or technology-related business relationships they may enter into with their audit clients.
- Explicitly acknowledge that the IIS that apply to assurance engagements are applicable to assurance engagements on non-financial information, for example, environmental, social, and governance (ESG) disclosures.

6. Below are extracts from the draft minutes of the September 2022 CAG meeting<sup>6</sup> and an indication of how the Task Force or IESBA has addressed CAG Representatives' comments.

Matters Raised	Task Force/IESBA Response
OVERALL	
<p>Representatives overall did not have any concerns with the direction of the Task Force's responses and draft revisions to the ED text in relation to (i) Subsection 113 <i>Professional Skills</i>; (ii) Subsection 114 <i>Confidentiality</i>; (iii) Section 120 <i>The Conceptual Framework</i> relating to complex circumstances; (iv) Parts 2 and 3 of the Code relating to the use of technology; (v) Section 520 <i>Business Relationships</i>; and (vi) Subsection 606 <i>IT Systems Services</i> in relation to hosting.</p>	<p>Support noted.</p>
CONFIDENTIALITY	
<p>Mr. Hansen emphasized the need to make clear that the revised confidentiality provisions do not interfere with the Code's existing disclosure provisions on responding to non-compliance with laws and regulations (NOCLAR). He also pointed out that from his observation, complete anonymization of data might be difficult. He also noted the existence of jurisdictional guidance on the topic of using confidential information.</p>	<p>Points taken into account.</p> <p>During the session, Mr. Huesken responded that the NOCLAR provisions would continue to allow for disclosure pursuant to the right given under Subsection 114 even after that Subsection has been revised by the Technology Project, subject to relevant laws and regulations, and provided that the NOCLAR is of such a nature or scale as to meet the public interest test. He also noted that the Task Force had considered jurisdictional guidance when developing the draft revisions.</p>

<sup>6</sup> The September 2022 CAG minutes will be approved during the March 2023 IESBA CAG meeting.

Matters Raised	Task Force/IESBA Response
	<p>The Basis for Conclusions to the Final Pronouncement has explained this point. Further, conforming amendments to the NOCLAR provisions in Parts 2 and 3 of the Code were made to update relevant paragraph references arising from the new paragraphs R114.2 and R114.3 in the technology-related revisions.</p>
<p>PART 2 OF THE CODE</p>	
<p>Mr. Ishiwata noted that the draft revisions are responsive to the public interest and suggested that further non-authoritative guidance be developed for specific technologies. He observed that the draft revisions pertaining to Part 2 of the Code might be challenging for small- and medium-sized enterprises (SMEs) and SMPs to implement given their more limited resources. He therefore noted that the key would be to undertake outreach to them.</p>	<p>Points taken into account.</p> <p>During the session, Mr. Huesken highlighted that outreach with the IFAC SMPAG was undertaken in developing the ED, and that the SMPAG had also submitted a comment letter to the ED. Therefore, their perspectives had been considered in developing the draft revisions.</p> <p>Mr. Huesken also observed that the suggestion for developing non-authoritative guidance is a consistent message received from stakeholders, which is not specific to technology. He noted that developing such guidance is resource-intensive and, therefore, this will need to be considered against other priorities. In the meantime, he pointed to non-authoritative guidance which has already been developed by the Technology Working Group and is published on the IESBA's <a href="#">Technology Focus Page</a>.</p>
<p>INDEPENDENCE</p>	
<p>Mr. Dalkin questioned if the draft revisions cover scenarios where the auditor develops a tool, e.g., fraud detection software, and the audit client wants to use such tool for its own internal use to identify fraud.</p>	<p>Point taken into account.</p> <p>During the session, Mr. Huesken responded that the scenario illustrated would constitute a self-review threat as the tool would form part of the internal controls over financial reporting and is covered by the revised NAS provisions. As a result, for auditors of public interest entities (PIEs), this would be prohibited.</p>
<p>Mr. Hansen expressed support for the draft revisions in relation to the examples of IT systems</p>	<p>Support noted.</p>

Matters Raised	Task Force/IESBA Response
services that result in the assumption of management responsibility.	
PIOB OBSERVERS' REMARKS	
<p>Mr. Sullivan expressed support for the draft revisions. In particular, he commented that they clarify and strengthen the Code, especially in relation to technology-related NAS. He also expressed support for the draft revisions in Subsection 114 concerning confidentiality, noting his preference for client consent to be in writing.</p> <p>Finally, he commended the Task Force on the continuing coordination with the Technology Working Group.</p>	Support noted.

**Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY**

Approved Technology-related Revisions to the Code <https://www.ifac.org/system/files/meetings/files/Agenda-Item-5C-Technology-Project-Proposed-Text-Mark-Up-from-Agenda-Item-5C-Turnaround-Approved-Dec-1.pdf>

**Appendix**

**Project History Summary: Technology Initiative**

	<b>CAG Meeting</b>	<b>IESBA Meeting</b>
Information gathering/ Discussion <sup>7</sup>	<a href="#">March 2019</a> <a href="#">September 2019</a>	<a href="#">March 2019</a> <a href="#">June 2019</a> <a href="#">September 2019</a> <a href="#">December 2019</a>
Project commencement, including approval of project proposal	<a href="#">March 2020</a>	<a href="#">March 2020</a>
Phase 2 Information gathering/discussion <sup>8</sup>	<a href="#">September 2021</a> <a href="#">September 2022</a>	<a href="#">March 2021</a> <a href="#">June 2021</a> <a href="#">September 2021</a> <a href="#">December 2021</a> <a href="#">March 2022</a> <a href="#">June 2022</a> <a href="#">September 2022</a>
Development of proposed international pronouncement (up to exposure) <sup>9</sup>	<a href="#">September-October 2020</a> <a href="#">March 2021</a> <a href="#">September 2021</a>	<a href="#">June 2020</a> <a href="#">September-October 2020</a> <a href="#">November-December 2020</a> <a href="#">March 2021</a> <a href="#">June 2021</a> <a href="#">September 2021</a> <a href="#">December 2021</a>
ED issued and available on <a href="#">IESBA Website</a> – February 2022 with a June 20, 2022 comment deadline		
Consideration of responses to ED	<a href="#">September 2022</a>	<a href="#">September 2022</a>
Approval of final pronouncement	N/A	<a href="#">November-December 2022</a>

<sup>7</sup> Report on [Phase 1 fact-finding](#) was issued in February 2020.

<sup>8</sup> Report on [Phase 2 fact-finding](#) presented to the CAG and IESBA in September 2022.

<sup>9</sup> ED incorporated the feedback on Technology [surveys](#) that were issued in 2020.