Meeting: IESBA

Meeting Location: Hybrid

Meeting Date: November 29-December 2, 7 & 15, 2022

Agenda Item 5

Technology Project Cover Note

Objectives

1. To:
   (a) Consider any remaining issues and the final technology-related revisions and related conforming amendments to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code).
   (b) Approve such revisions and conforming amendments.

The Task Force welcomes drafting suggestions in advance of the IESBA meeting. Please email kamleung@ethicsboard.org.

Activities since Last IESBA Discussion

2. Task Force members met three times virtually and once in-person to develop and finalize the agenda materials for this meeting.

Targeted Outreach

3. Following the September 2022 meeting, the Task Force conducted targeted outreach with the following stakeholder groups.
   - IESBA’s Consultative Advisory Group (CAG).
   - International Auditing and Assurance Standards Board (IAASB) Technology Consultative Group (TCG).
   - International Forum of Independent Audit Regulators Standards Coordination Working Group (IFIAR SCWG).
   - International Organization of Securities Commissions Committee on Issuer Accounting, Audit

---

1 The IESBA considered a full analysis of the comments raised by respondents on the Exposure Draft, Proposed Technology-related Revisions to the Code, in September 2022.

2 Approval of the technology-related revisions to the Code was scheduled to take place at the IESBA’s March 2023 meeting. Reflecting on the progress made to date with the project, the nature of the comments received at, and since the IESBA September meeting, the Task Force is proposing (and the Planning Committee agrees) that the IESBA should consider, and if appropriate, approve the technology-related revisions to the Code to its November/December 2022 meeting.

3 See also paragraphs 7 and 8 relating to IAASB-IESBA coordination.
and Disclosure (IOSCO Committee 1).

- Forum of Firms.

Specifically, representatives of the above listed organizations were briefed on the significant comments raised by respondents to the Technology Exposure Draft (ED), and the related responses.

4. The Task Force Chair will brief the IESBA on the key matters raised during the September 2022 CAG meeting and other targeted outreach meeting discussions during its November/December 2022 meeting.

Consideration of IESBA Input on Previous Drafts

5. The Task Force developed revisions to the September 2022 draft of the proposed text to reflect the input from the IESBA’s September 2022 meeting, and the feedback received from targeted outreach that was undertaken in Q4. In October 2022, a new draft of the proposed text (October Text) was circulated to IESBA members, technical advisors and formal observers with a request for input to inform the Task Force’s finalization of the proposed revisions contained in Agenda 5-C (i.e., mark-up from October Text).

6. During its November/December meeting the Task Force Chair will brief the IESBA on the significant matters raised on the October Text and will seek Board input on the revisions to the revisions from the October Text set out in Agenda Item 5-C (i.e., mark-up from the October text). Agenda Item 5-A is a compilation of the comments received on the October Text and the Task Force’s related responses.

7. A draft Basis for Conclusions is set out at Agenda Item 5-B. It provides a summary of all the significant issues raised by ED respondents and the IESBA/Task Force responses to-date. This document will be updated after the November/December meeting to reflect the outcome of the IESBA’s final deliberations.

Consideration of Coordination with the IESBA Technology Working Group

8. The Task Force has carefully considered the Technology Working Group’s fact finding work, including the insights and recommendations set out in the draft Phase 2 Report that was presented to the IESBA in September 2022 and subsequent updates to finalize such Report. For example:

- The Technology Working Group shared relevant insights and observations with the Task Force which were considered in developing the technology-related proposals contained in the Technology ED.

- The Technology Working Group and Task Force held a joint meeting prior to the September 2022 IESBA meeting to discuss the recommendations outlined in the draft Phase 2 Report. As appropriate, the Task Force took into account such insights and recommendations within the

---

4 Following the issuance of the Phase 1 Technology Report, the IESBA established a new Technology Working Group to:

- Develop or facilitate thought leadership and other materials that highlight technology trends and developments and the resulting ethics (and independence) implications for PAs.

- Undertake fact-finding to identify and assess the potential impact of technology developments on the accountancy profession.

In addition to the areas of focus covered in the Phase 1 Report (i.e., AI, big data, and data analytics), the Technology Working Group’s fact finding covered topics such as blockchain, cybersecurity, and cloud computing.
context of its analysis of comment letters received on the Technology ED.

- On the margins of the September 2022 IESBA meeting, the staff and Chairs of the Technology Task Force and the Technology Working Group met to discuss and agree to refinements to the proposed revisions to the Code, which specifically address recommendations A and B of the Phase 2 Report.

9. **Agenda Item 6-A** provides an overview of the Task Force’s consideration of recommendations set out in the final Phase 2 Report which have possible standard-setting implications broader than the scope of the Technology Project. This document is intended to inform the Board’s discussions in the development of the draft Strategy and Work Plan Consultation Paper at its November/December 2022 meeting.

**Coordination with the IAASB**

10. The Task Force has continued to coordinate with the IAASB to maintain the alignment and interconnectivity between the two Boards’ sets of standards. In particular, the revisions to the ED continue to preserve the existing alignment between the terms and concepts in Part 4B of the Code and the IAASB’s International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information.

11. Furthermore, the IESBA Technology Liaison member briefed the IAASB TCG members on the significant comments received on the ED and the related responses/ revisions to the proposed text. No significant comments were raised by TCG members.

**Matters for IESBA Consideration**

**Comments from Monitoring Group (MG) Members and Public Interest Oversight Board (PIOB)**

12. The Task Force has carefully considered and addressed all comments from MG members (i.e., IOSCO and IFIAR), including from the virtual meeting discussions held in October 2022 (for example, see paragraphs 12, 22, 48, 53, 58, 67, 109 to 112 of the draft Basis for Conclusions).

13. In addition, the Task Force has carefully considered and responded to the latest PIOB Public Interest Issues on the technology project (i.e., the September 2022 Public Interest Issue document).

<table>
<thead>
<tr>
<th>PIOC’s Public Interest Issues</th>
<th>Task Force Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology-related Revisions to the Code and Non-Authoritative Material</td>
<td>Support Noted</td>
</tr>
</tbody>
</table>

- The use and impacts of technology is one of the most important issues the profession is facing. The pervasive nature of technology, and its broad and exponentially growing use, pose significant ethical challenges which it is in the public interest for the IESBA to address in a comprehensive and timely manner. COVID-19 effects and the accelerated adoption and development of technology are
PIOB’s Public Interest Issues | Task Force Responses
---|---
additional reasons for urgency.  
- The PIOB appreciates the extensive and careful work done to date on the topic. It welcomed the IESBA’s establishment of a Technology Working Group (TWG) which focuses on developing non-authoritative guidance, fact finding and thought leadership, to complement the work of the Technology Task Force (TTF) which focuses on the Code and relevant changes needed. | Support Noted

The Need for an Ethical Framework for the Understanding and Use of Technology  
- The PIOB welcomes the IESBA’s consideration of the ethical implications of a professional accountant (PA) using, or encouraging their clients to use, technology, and clarifying how the fundamental principles in the Code should be applied in such a complex and new environment.  
- It is important that the Code signals clearly the level of competency, and the nature of professional judgement, that are needed to ensure an ethical approach.  
- It is similarly in the public interest for the IESBA to address within the Code, and supported where appropriate by guidance, how to evaluate ethical threats and biases when audit practitioners and firms use automation and artificial intelligence to perform audit procedures. | Support Noted. See proposed revisions to Sections 113, 120, 200, 220, 300 and 320 of the Code.

Point accepted. The technology-related revisions to the Code build on the extant Code which already addresses the topic of bias and how it affects the exercise of professional judgment and the application of the Code’s conceptual framework more broadly (see extant paragraphs 120.12 A1 to 120.12 A3).

Point accepted. The proposed technology-related revisions to the Code are intended to be principles-based and technology-agnostic so as to future-proof the Code. Accordingly, Sections 200, 220, 300, 320 include proposed principles-based provisions that will apply when a PA is using AI and automation (or any other technology).

The Task Force’s view is that any technology-specific guidance is better elaborated in non-
<table>
<thead>
<tr>
<th>PIOB’s Public Interest Issues</th>
<th>Task Force Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authoritative material. In this regard, the Technology Working Group’s Phase 2 Report provides important insights for PAs regarding ethics considerations in relation to automation and AI. Finally, in relation to the use of automated tools and techniques in an audit of financial statements, the Task Force notes that the IAASB staff has released a series of FAQs. (^5)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Independence Issues and IT Services in the NAS Section of the Code</th>
<th>Support Noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The PIOB appreciates the Task Force’s proposal in the ED to clarify that where there is a sale or licensing of technology by audit firms or network firms to audit clients, the independence provisions in the NAS section (600) in the Code apply (including the prohibition to provide those services when a self-review threat might be created).</td>
<td>Comment noted. The proposed revisions in subsection 606 of the Code build on the overarching prohibition on assuming a management responsibility. It clarifies that the provision of hosting services to an audit client is an example of a service that will result in the assumption of a management responsibility. ED respondents were supportive of this approach and the mark up from the ED text in Agenda Item 5-E reflects suggested refinements.</td>
</tr>
<tr>
<td>• The PIOB also notes the proposed clarifications and enhancements in the Code related to IT services. The proposal in the ED, to include data hosting services to audit clients as an example of management responsibility, falls short of a straight prohibition of these IT services (which are listed in the application material rather than in the requirements). The PIOB looks forward to the analysis of stakeholders’ input resulting from the consultation.</td>
<td></td>
</tr>
</tbody>
</table>

Effective co-ordination of effort is important for |

---

\(^5\) Refer to the following IAASB staff publications:

- Audit Planning when Using Automated Tools and Techniques
- Using Automated Tools and Techniques when Identifying Risks of Material Misstatement in Accordance with ISA 315 (Revised)
- Using Automated Tools and Techniques in Performing Audit Procedures
- Audit Documentation when Using Automated Tools and Techniques
- Risk of Overreliance on Technology – Using Automated Tools and Techniques and Use of Information Produced by the Entity’s Systems
### PIOB’s Public Interest Issues

<table>
<thead>
<tr>
<th>timely progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Co-ordination between the TWG and the TTF is critically important to the IESBA’s responsiveness on this issue. Timely progress remains a critical matter of public interest.</td>
</tr>
</tbody>
</table>

**Task Force Responses**

*Point accepted.* See paragraph 4 of this paper which notes a discussion of the coordination between the Technology Task Force and the Working Group.

### External Engagement Needs to be Broadened

- A critical factor in ensuring responsiveness to the public interest is the nature and extent of stakeholder engagement. The surveys conducted by the TTF in 2020 (“Technology and complexity in the professional environment” and “The impact of technology on auditor independence”) showed an imbalance in the input received, where the majority of respondents belonged to the audit profession and there was a low level of participation from investors, regulators and other stakeholders.
- The PIOB notes that targeted outreach has since been conducted by the TWG with a number of groups, such as Those Charged With Governance, Public Sector organizations, PAIBs and Technology companies.
- It is essential to obtain views from a broader and more complete group of stakeholders, in accordance with the PIF.
- The PIOB also notes the establishment of a Technology Experts Group (TEG), which includes NSS, Consultants, PAIBs, PAPPs, TCWG, and Academics, and which will act as a sounding board to the TWG. The PIOB acknowledges that the selection of the group mainly took into account the expertise in technology and notes that the composition could possibly benefit from views of other stakeholders, such as regulators or users/investors or from different economies with relevant insights.

**Task Force Responses**

*Points accepted.* In addition to the Technology Surveys that were publicly issued, the Task Force’s work was informed by targeted stakeholder outreach, as well as:

- The final recommendations in the Phase 1 Report which result from extensive fact finding on certain technologies.
- Technology-related comments on the NAS Exposure Draft.
- The fact finding undertaken by the Technology Working Group, including the final report that was presented to the IESBA at its September 2022 meeting.
- The feedback on the Technology ED (i.e., comment letters as well as feedback from participants in virtual events, including the global webinar). The key issues and questions in the ED were published as a summary survey document that expressly targeted investors and those charged with governance.
- The insights and perspectives of the IESBA’s TEG which provided practical technology-related input to complement views of other stakeholders, such as regulators or users/investors that was obtained as part of the IESBA’s general stakeholder outreach and consultation process.
PIOB’s Public Interest Issues | Task Force Responses
---|---
**Working with other projects and the IAASB**
- The pervasive nature of the technological challenges also raises the need for broader coordination, including with other IESBA projects (such as Tax Planning) and the IAASB. *Point taken into account. As deemed necessary, the staff and Task Force has coordinated with other IESBA Task Forces and the IAASB. This was done in developing the initial ED proposals and in finalizing the revisions.*

**Matters for Consideration**

1. IESBA members are asked to consider whether there are any matters raised by respondents to the Technology ED (other than those brought forward by the Task Force), that should be discussed by the Board.  
2. Do IESBA members agree with the Task Force’s consideration and responses to PIOB and MG comments?  
3. Do IESBA members agree that there are no further matters to be discussed before finalizing the technology-related revisions?

**Proposed Effective Date**

14. Subject to approval of the technology-related revisions to the Code in November/December 2022, the Task Force proposes an effective date as follows, with no transitional provision:

- Revisions to Parts 1 to 3 will be effective as of December 15, 2024.
- Revisions to Part 4A will be effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024.
- The conforming and consequential amendments to Part 4B in relation to assurance engagements with respect to underlying subject matters covering periods of time will be effective for periods beginning on or after December 15, 2024; otherwise, these amendments will be effective as of December 15, 2024.  

Early adoption will be permitted.

15. This proposed effective date has taken into account advance input received from various IESBA members and technical advisors during October (see Agenda Item 5-A for details), which included feedback from representatives of national standard-setters that there should be a reasonable

---

6 All comment letters in response to the Technology ED can be accessed on the IESBA website; have been carefully analyzed by the Task Force; and were considered by the IESBA in September 2022 (see Agenda Item 8, Cover Note, Agenda Item 8-A Presentation Significant Issues and Task Force Responses, Agenda Item 8-C, Analysis of Respondents Views on the ED, and Summary of Significant ED Comments and Task Force Responses, and Agenda Item 8-D, Compilation of ED Comments General and By Question).
timeframe which allows for translation, jurisdiction specific due processes for adoption, and the
development of appropriate implementation infrastructure to take place. **Agenda Item 5-B**
paragraphs 123 to 126 further sets out the Task Force’s rationale for such effective date.

**Due Process Matters**

**Significant Matters Raised by Respondents**

16. It is the Task Force’s view that all significant matters raised by the respondents in comment letters
were identified and considered by the Task Force. The Task Force’s analysis of the significant
matters identified, and its proposals have also been presented in public agenda papers for the
Board’s discussions. In the Task Force’s view, there are no significant matters raised by respondents
that have not been brought to the IESBA’s attention.

**Need for Further Consultation**

17. The Task Force believes that all significant matters have been considered and resolved by the
IESBA. During its September 2022 meeting, the IESBA CAG did not raise any concerns about the
Task Force’s analysis of the significant matters or its proposals.

18. On the basis of the above, the Task Force does not believe there is a need for further consultation
with stakeholders.

**Consideration of the Need for Further Re-Exposure**

19. **Agenda Item 5-E** sets out the revisions that have been made to the Technology ED in mark-up. The
Task Force is of the view that the revisions are limited to changes made to address respondents’
comments and suggestions.

20. In light of the above, the Task Force believes that re-exposure is not warranted as the text changes
post-exposure are in response to feedback from respondents to the Technology ED and do not
substantively change the proposals in the ED.

<table>
<thead>
<tr>
<th>Matters for Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. IESBA members are asked to:</td>
</tr>
<tr>
<td>• Consider the refinements to the revised text in <strong>Agenda Item 5-C</strong>.</td>
</tr>
<tr>
<td>• Approve the revisions to the technology-related revisions to the Code.</td>
</tr>
<tr>
<td>• Determine an effective date for such revisions.</td>
</tr>
</tbody>
</table>
| 5. Do IESBA members agree that the technology-related revisions to the Code do not warrant re-
   exposure? |
Materials Presented

For Discussion

Agenda Item 5-A  Compilation of Comments on October text and Task Force Responses
Agenda Item 5-B  Draft Basis for Conclusions, Technology-related Revisions to the Code
Agenda Item 5-C  Proposed Text – Technology-related Revisions to the Code (Mark-up from October 2022 text)

For Reference

Agenda Item 5-D  Proposed Text – Technology-related Revisions to the Code (Mark-up from ED)
Agenda Item 5-E  Proposed Text – Technology-related Revisions to the Code (Mark-up from Extant)
Agenda Item 5-F  Proposed Text – Technology-related Revisions to the Code (Clean)
## Appendix 1

### Project History Summary: Technology Initiative

<table>
<thead>
<tr>
<th>Event Description</th>
<th>CAG Meeting</th>
<th>IESBA Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information gathering/ Discussion&lt;sup&gt;7&lt;/sup&gt;</td>
<td>March 2019</td>
<td>March 2019</td>
</tr>
<tr>
<td></td>
<td>September 2019</td>
<td>June 2019</td>
</tr>
<tr>
<td></td>
<td></td>
<td>September 2019</td>
</tr>
<tr>
<td></td>
<td></td>
<td>December 2019</td>
</tr>
<tr>
<td>Project commencement, including approval of project proposal</td>
<td>March 2020</td>
<td>March 2020</td>
</tr>
<tr>
<td>Phase 2 Information gathering/discussion&lt;sup&gt;8&lt;/sup&gt;</td>
<td>September 2021</td>
<td>March 2021</td>
</tr>
<tr>
<td></td>
<td>September 2022</td>
<td>June 2021</td>
</tr>
<tr>
<td></td>
<td></td>
<td>September 2021</td>
</tr>
<tr>
<td></td>
<td></td>
<td>December 2021</td>
</tr>
<tr>
<td></td>
<td></td>
<td>March 2022</td>
</tr>
<tr>
<td></td>
<td></td>
<td>June 2022</td>
</tr>
<tr>
<td></td>
<td></td>
<td>September 2022</td>
</tr>
<tr>
<td>Development of proposed international pronouncement (up to exposure)&lt;sup&gt;9&lt;/sup&gt;</td>
<td>September-October 2020</td>
<td>June 2020</td>
</tr>
<tr>
<td></td>
<td>March 2021</td>
<td>September-October 2020</td>
</tr>
<tr>
<td></td>
<td>September 2021</td>
<td>November-December 2020</td>
</tr>
<tr>
<td></td>
<td></td>
<td>March 2021</td>
</tr>
<tr>
<td></td>
<td></td>
<td>June 2021</td>
</tr>
<tr>
<td></td>
<td></td>
<td>September 2021</td>
</tr>
<tr>
<td></td>
<td></td>
<td>December 2021</td>
</tr>
<tr>
<td>ED issued and available on <a href="https://www.iesba.org">IESBA Website</a> – February 2022 with a June 20, 2022 comment deadline</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consideration of responses to ED</td>
<td>September 2022</td>
<td>September 2022</td>
</tr>
</tbody>
</table>

---

<sup>7</sup> Report on [Phase 1 fact-finding](https://www.iesba.org) was issued in February 2020.

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

<sup>9</sup> ED incorporated the feedback on Technology [surveys](https://www.iesba.org) that were issued in 2020.