Report Back on Recommendations in the Technology Working Group’s Final Phase 2 Technology Report

**Note to reviewers:** At the request of the Planning Committee, this paper has been prepared to summarize the Technology Task Force’s and the Technology Working Group’s discussions with regard to the proposed technology-related revisions to the Code and certain recommendations in the Technology Working’s Phase 2 Final Report.

**Purpose of this Paper**

1. The purpose of the paper is to inform the Board’s discussions of the potential new workstreams to be included in the draft Strategy and Work Plan 2024-2027 Consultation Paper (SWP Consultation Paper (CP)) and, as relevant, how such potential new workstreams are described.

2. This paper has been prepared jointly by the Technology Task Force (TTF) and the Technology Working Group (TWG).

**Matters for IESBA Consideration**

3. Based on the information provided in this Report Back, IESBA members will be asked to consider the recommendations\(^1\) in the Technology Working Group’s Phase 2 Final Report (the TWG Final Report) that contemplate potential revisions to the Code (recommendations A, B, C, E, F, H, and I), and determine whether each recommendation:

- Has been adequately addressed in the proposed technology-related revisions to the Code set out in **Agenda Item 5-D**, such that no further consideration by the IESBA is necessary; or
- If a recommendation, or parts of it, has not been addressed, whether such recommendation, or parts of it, should be:
  - Included in the draft SWP CP as a potential new workstream (for example, see illustrative placeholders set out in table C of **Agenda Item 6-B**), having regard to the significance of the public interest issues raised in the context of the Public Interest Oversight Board (PIOB)’s Public Interest Framework published by the Monitoring Group in July 2020 (as part of their report, *Strengthening the International Audit and Ethics Standard-Setting System*); or
  - Addressed in another manner, such as:
    - Development of non-authoritative material, because the Code contains sufficient requirements and application materials on which to base such material; or
    - Through consideration by an upcoming workstream about to commence.

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\(^1\) The TWG Final Report sets out ten recommendations. Seven of them relate to matters with possible standard-setting implications that might result in revisions to the Code. As noted in the table at paragraph 5, some recommendations relate to technology and have informed the proposed technology-related revisions to the Code in **Agenda Items 5**. Others touch on issues that go beyond the scope of the Technology Project.
Background

4. At its March 2021 meeting, the IESBA agreed two technology workstreams to be progressed concurrently and collaboratively.² To-date, the IESBA has:

- Developed proposed technology-related revisions to the Code,³ which it anticipates approving at its November/December 2022 meeting.
- Received a final report summarising the outcome of the Technology Working Group’s fact-finding and related recommendations. The final report was issued in November 2022.
- Established a Technology Experts Group (TEG) consisting of eight members that are experienced in using and implementing technology, to provide advice and act as a “sounding Board” for the Technology Working Group’s work.
- Launched a technology-focused webpage to showcase, among other matters, technology-related thought leadership publications and other non-authoritative material/resources.

Report Back on Relevant Task Force and Working Group Discussions and Considerations

5. The following table sets out:

- In the left-hand column, the relevant recommendations in the TWG Final Report and the related priority level agreed in September 2022;
- In the right-hand column:
  - A summary of the extent to which such recommendations will be addressed in the Code following approval of the proposed technology-related revisions (‘the proposed revisions’); and
  - Highlights of the key considerations identified by the TTF and the TWG in the course of their discussions.
- In the row below each recommendation, the TWG’s suggested disposition of the recommendation, for IESBA consideration.

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<tr>
<th>Phase 2 Report Recommendation</th>
<th>TTF/ TWG Discussions and Considerations</th>
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</thead>
<tbody>
<tr>
<td><strong>Recommendation A – Data Used for AI Training (Short-term Priority)</strong></td>
<td>The proposed revisions to subsection 114 of the Code, in particular, proposed paragraphs R114.2(b) and 114.2 A3, address recommendation A in a principles-based manner. The proposed text in these paragraphs reflects refinements and drafting suggestions from the</td>
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<tr>
<td>Revise the Code, for example, in Subsection 114 Confidentiality, to clarify whether firms and organizations may use client or customer data for internal purposes, such as training AI models,</td>
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² See the April 2021 Technology Update which provides an overview of the updated pathways for the IESBA’s technology initiative.
³ The IESBA issued the Technology Exposure Draft in February 2022 with a comment deadline of June 20, 2022. A full analysis of the significant issues raised by ED respondents was considered in September 2022.
### Phase 2 Report Recommendation

and if so, the parameters of such use (prior, informed consent; anonymization).

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<td>TWG, subject to final refinements during the November/ December board meetings.</td>
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<td>The proposed text is also intended to address an ED respondent’s request for clarity on this matter in the Code.</td>
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<td>The proposed revisions to the Code are intentionally technology-agnostic. Therefore, paragraph 114.2 A3 does not explicitly highlight “AI training” but refers to the use of confidential information “where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies.” This recognizes the use of confidential information for various other purposes in addition to the specific use case of AI training.</td>
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<tr>
<td>The TTF believes that the revised material in subsection 114 of the Code provides a strengthened base upon which non-authoritative guidance specific to AI training can be developed.</td>
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Non-authoritative guidance should be developed to specifically emphasize the expectations for complying with the fundamental principle of integrity when using client or customer data for AI training, i.e., obtaining consent that is meaningful, informed, and transparent.

### Suggested Way Forward for Recommendation A:

The TWG and TTF believe that this item has been adequately addressed by the proposed revisions to the Code, and that no further Board consideration is necessary at this time.

Non-authoritative guidance will continue to be developed as part of the IESBA’s ongoing activities.

### Recommendation B – Transparency and Explainable AI (Short-term Priority)

Develop further guidance around the importance of transparency and explainability, whether through non-authoritative guidance or in the Code, specific to when a PA relies on or uses

| The proposed revisions to Sections 200, 220, 300, 320, and in particular, paragraph 200.6 A2 third sub-bullet under self-interest threat, 220.8 A1 third bullet, and the corresponding material in Part 3 of the Code address recommendation B. |
| The proposed text in these paragraphs reflects |

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4 PAOs: ICAEW
Phase 2 Report Recommendation

Transformative technologies (e.g., AI). Such guidance would highlight that PAs cannot abdicate their public interest responsibility and accountability when relying on or using technology (even in highly automated environments).

This additional guidance might explicitly set out expectations for a PA when relying on a technological solution. For example, before relying on a machine learning tool, the PA would be expected to ensure that the tool is explainable (i.e., that they can reasonably understand the rationale for decisions made by the technology). The TWG believes that the PA need not be the expert who can explain the tool but should have access to such an expert and should obtain a reasonable understanding in order to be comfortable with the tool’s inputs, processing, and outputs.

Furthermore, consideration should be given to the ethics expectations for PAs when they are involved with developing transformative technology solutions, for example, that they are expected to promote the development of explainable systems, particularly in high-stakes applications.

TTF/ TWG Discussions and Considerations

Refinements and drafting suggestions from the TWG, subject to final refinements during the November/December Board meetings.

In addition to addressing the TWG recommendation, the TTF’s proposals are intended to address points raised by ED respondents and, in particular, those that questioned whether it is reasonable to expect a PA to have sufficient expertise or understanding to be able to use and explain the technology, and therefore suggested that access to an expert with such expertise or understanding should be regarded as equivalent.

The proposed revision to paragraph 120.13 A3 outlines the expectation that PAs will exhibit ethical behavior in dealings with individuals with whom, and entities with which, the PA, the firm or the employing organization has a professional or business relationship (i.e., including with software developers or others).

The TTF believes that the revised material in the Code provides a strengthened basis upon which non-authoritative guidance specific to the ethics expectations in relation to transparency, explainable AI and accountability can be developed.

Suggested Way Forward for Recommendation B:

The TWG and TTF believe that this item has been adequately addressed by the proposed revisions to the Code, and that no further Board consideration is necessary at this time.

Non-authoritative guidance will continue to be developed as part of the IESBA’s ongoing activities.

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5 Regulators: UKFRC, IRBA, IFIAR; PAOs: HKICPA; Firms: MNP
Recommendation C – Data Governance, including Custody of Data (Long-term Priority)

Revise the Code to address the ethics implications of a PA’s custody or holding of financial or non-financial data belonging to clients, customers, or other third parties. Such a workstream could be scoped to also include considering threats to compliance with the fundamental principles given the complexity created for PAs who need to remain current with an evolving patchwork of cross- and intra-jurisdictional data privacy laws and regulations, as well as the ethics challenges related to data governance and management (including cybersecurity).

The proposed revisions with varying degrees of relevance to recommendation C are summarized below:

- Proposed paragraph 114.1 A1 emphasizes the need to maintain the confidentiality of data throughout the entire data governance cycle.

- Proposed paragraph 114.2 A2 prompts PAs to consider applicable laws and regulations, including those governing privacy when determining whether to use or disclose information. It also includes an explicit prompt to consider the laws and regulations of jurisdictions where information or data might be disclosed or, if different, originates.

- Proposed paragraphs 200.6 A2, 220.8 A1, 300.6 A2 and 320.11 A1 contain examples of ethical considerations that are relevant when identifying threats to compliance with the FPs arising from the use of technology or relying on the output of technology. These include the oversight and controls over technology, such as those relating to user access and the decisions made by individuals in the course of using technology.

- The proposed revisions to subsection 606 and Section 900 of the Code prohibit the provision of hosting services and other electronic security or back-up services, such as business continuity or a disaster recovery function; of the data or records for audit clients, and of the data and records related to the underlying subject matter and subject matter information for assurance clients.

In finalizing the technology ED proposals, the TTF took into account the following:

- The suggestion in the Phase 1 Report to “further review …Section 350 Custody of Client Assets and data governance…as part of the next phase of the IESBA’s Technology Initiative.”

In this regard, the TTF noted that data is not
Phase 2 Report Recommendation | TTF/ TWG Discussions and Considerations
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typically recognized as an asset on the balance sheet. Therefore, in developing the ED proposals, the TTF explored the development of a new section leveraging ethical stewardship considerations similar to those contained in Section 350 of the Code.  
- In June 2021, the TTF recommended to the Board that no further changes to the Code should be considered within the remit of the Technology Project because:
  - Data is not yet defined as an “asset” by traditional accounting standards.
  - The global discussion about the PA’s role in data is still evolving and it would be premature to develop a new section on Custody of Data; and that additional insights and information should be obtained.

In this regard, the Board did not express any comments or disagreement on the TTF’s recommendation. The ED reflects the position which did not include a new section relating to custody of data.

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6 In particular, the new potential section on Custody of Data that was explored included:
- A discussion of threats to compliance with the fundamental principles that might be created by a PA holding data.
- A recognition that a PA should not assume custody of data if it is prohibited by law or regulation, and that they should only assume custody of data in accordance with applicable laws or regulations.
- Examples of situations where a PA might have custody of data.
- Factors for PAs to consider when they accept engagements involving custody of data, including for example, inquires to be made about the data and its storage, examples of what inquires could be made by a PA about the data, and the related legal and regulatory obligations.
- The need for all parties involved to agree to specific responsibilities.
- Specific requirements for PAs that would apply after obtaining custody of data. In particular, the need to comply with laws and regulations that are relevant to custody of the specific type of data held; to store such data safely and keep it separated from the PA’s own data; and use the data only for the purposes specifically agreed upon, and to ensure that all deletion protocols are adhered to.

7 As noted, for example, in a May 2021 Discussion Paper, The Professional Accountant’s Role in Data published by IFAC and CPA Canada.
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<td>Continue raising awareness of a PA’s strategic role in data governance and management (including cybersecurity) and develop educational resources to highlight such a role.</td>
<td>Given the call for additional research in this area, the TWG asked the significant majority of its outreach participants for their insights as to expectations of PAIBs and PAPPs with respect to data governance and information stewardship. The TWG continued to hear about the importance of this topic for PAs, including the potential ethics issues that might arise. It is outside the scope of the Technology Project to develop educational resources on a PA’s strategic role in data governance and management (including cybersecurity).</td>
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**Suggested Way Forward for Recommendation C:**

Data governance is a highly sensitive issue that is continuing to evolve, with significant impacts on PA roles and public interest implications.

The TWG recommends that it be considered as part of the IESBA’s ongoing strategic planning, and that it be included in the SWP CP as a potential new work stream.

In this regard, the TTF notes the TWG’s view on this matter. However, it has not discussed such view as it believes the matter goes beyond the remit of the Technology Project.

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8 Questions asked of stakeholders with respect to expectations of PAs in relation to data governance and information stewardship are contained in the TWG’s June 2021 Briefing Paper.
**Phase 2 Report Recommendation** | **TTF/ TWG Discussions and Considerations**
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**Recommendation E – Communication with Those Charged with Governance (Medium-term Priority)**

To strengthen the concepts of transparency and accountability, add new material to the Code as part of the subsections on "communication with TCWG" in Parts 2 and 3 to encourage, or require, meaningful communication with TCWG by PAs (including individual PAPPs and firms) about technology-related risks and exposures that might affect PAs’ compliance with the fundamental principles and, where applicable, independence requirements.

These concepts are not unique to technology-related risks and exposures, but rather are broadly applicable whenever there are risks and exposures that might affect PAs’ compliance with the fundamental principles and, where applicable, independence requirements. (e.g., technology, tax planning, sustainability). There is an opportunity to incorporate such communications into the Code more generally in the future, so that it can be considered under all circumstances.

The proposed revisions, together with existing extant material in the Code, partially address recommendation E:

- Proposed paragraph R113.3 requires PAs to be transparent with their employing organization, firm, or any relevant stakeholder about the limitations inherent in the services and activities that are being provided and to explain the implications of those limitations. This has the effect of establishing the threshold of a PA’s communications with others, including TCWG.

- Extant Sections 210 and 310 of the Code include provisions prompting communications about conflicts of interest.

- The revised NAS and fee-related provisions include new requirements regarding communication with TCWG prior to the provision of NAS.

The TTF and TWG note that during the IESBA’s September 2022 meeting deliberations, especially during the Tax Planning and Technology Working Group sessions, several IESBA members suggested the need for a project to undertake a broad review of how the Code deals with communication with TCWG.

**Suggested Way Forward for Recommendation E:**

Communication with TCWG extends beyond the area of technology and has been noted by the IESBA to have broad implications for upcoming work streams.

As such, the TWG recommends that it be considered as part of the IESBA’s ongoing strategic planning, and that it be included in the SWP CP as a potential new work stream.

In this regard, the TTF notes the TWG’s view on this matter. However, it has not discussed such view as it believes that the matter goes beyond the remit of the Technology Project.

**Recommendation F – Reliance on, or Use of, Experts (Medium-term Priority)**

Develop non-authoritative guidance and/or revise the Code in paragraphs 220.7 A1 and 320.10 A1

The proposed revisions to extant paragraphs R220.7 to 220.7 A1 and R320.10 to 320.10 A1 deal with a PA’s use of the work of others or an expert. The changes align the use of terminology and
### Phase 2 Report Recommendation

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<th>to emphasize the importance of a PA assessing the extent to which an expert being used and relied upon behaves in alignment with the Code’s fundamental principles, and the factors to consider in making such an assessment.</th>
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### TTF/ TWG Discussions and Considerations

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<th>drafting structures between Parts 2 and 3.</th>
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<th>At its September 2022 meeting, the IESBA decided to undertake a project that will involve a consideration of the specific ethics and independence issues arising from the involvement of experts in preparing/presenting information and providing assurance on/auditing such information.</th>
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<th>Recommendation F will be considered as part of this project, which will touch on issues that have been identified by other IESBA Task Forces and Working Groups (e.g., the Tax Planning and ET-GA Task Forces, and the Sustainability Working Group).</th>
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<th>The IESBA anticipates approving the project plan for this project in December 2022.</th>
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### Suggested Way Forward for Recommendation F:

This recommendation has been addressed by its consideration in the draft project proposal relating to use of experts (see Agenda Item 3-B). The draft project proposal is intended to address the ethics and independence issues when experts are used, and the IESBA will be asked to consider and approve that project proposal at its November/December 2022 meeting.
**Recommendation H – Pressure on PAs (Short-term Priority)**

Revise the Code, for example, within Section 270 Pressure to Breach the Fundamental Principles, to include illustrations of pressures on PAs (such as time and resourcing constraints; competence gaps; the complexity of technology, laws and regulations; the pace of change; uncertainty, etc.).

In addition, consider revising the description of the intimidation threat (paragraph 120.6 A3) to acknowledge that objectivity is not the only fundamental principle that might be impacted by this threat. For example, feeling pressured or intimidated as a result of information overload or an exponential pace of change might threaten professional competence and due care.

Finally, advocate to PAOs and other bodies, such as IFAC’s IPAE, the development of additional non-authoritative resources to raise awareness of, and provide guidance on, how PAs can manage sustained pressures.

The TTF considered the drivers of pressure on PAs (i.e., the “elements of complexity” that survey respondents highlighted in response to the IESBA’s 2020 global survey on *Complexity and Technology in the Professional Environment*).

However, when finalizing the Technology ED, the IESBA determined not to encapsulate such elements in a new category of threat nor modify an existing category of threat.

Throughout its continued outreach and fact-finding work, the TWG consistently heard from stakeholders that there were concerns about pressure on PAs from, for example, time and resourcing constraints; competence gaps; the complexity of technology, laws and regulations; the pace of change; and uncertainty. This includes, but is not limited to the presence of complex circumstances.

At its September 2022 meeting, IESBA members welcomed the TWG’s suggestion to consider addressing recommendation H as a “short-term” project. Specifically, it was noted that this issue is equally relevant for Tax Planning and Related Services, and Sustainability. PAs undertaking tax planning or sustainability reporting are likely to feel pressure related to the pace of change, uncertainty of information and complexity of situations. These pressures threaten compliance with more than just objectivity. For example, when undertaking tax planning, the complexity of multi-jurisdictional differences in laws and regulations might threaten the PA’s ability to demonstrate professional competence and due care. Similarly, PAs involved in sustainability reporting might be pressured to present information in a way that constitutes greenwashing. The uncertainty and pace of change in the sustainability field might threaten the PA’s ability to demonstrate integrity by standing their ground when it would be appropriate to do so.

In addition, the topic of pressure and how it is addressed in the Code is a matter that has been identified for consideration as part of the IESBA future project on sustainability.
Suggested Way Forward for Recommendation H:

The TWG continues to believe that this recommendation can be efficiently addressed as part of one or more current work streams. In accordance with its ‘four pillars’ related to its continued work, the TWG will be available to provide input on this matter to Task Forces as needed.

The TWG does not believe that this recommendation warrants inclusion as a potential new work stream in the SWP CP.

In this regard, the TTF notes the TWG’s view on this matter. However, it has not discussed such view as it believes the matter goes beyond the remit of the Technology Project.

Recommendation I – Business Relationships (Long-term Priority)

Given the rise in strategic and commercial relationships between accounting firms and technology and other companies, consider revising Part 39 of the Code to consider the ethics implications of business relationships, in addition to revising Section 520 Business Relationships more comprehensively to address potential threats to the fundamental principles and, where relevant, independence, in the context of broader business relationships and new forms of relationships that are emerging.

The recommendation relating to potentially revising Part 3 of the Code to consider the ethics implications of business relationships more broadly is outside the scope of the technology project.

With respect to Section 520, in finalizing the Technology ED, the IESBA discussed examples of factors impacting the closeness of a business relationship.

However, the IESBA determined not to include such factors into Section 520 in finalizing the Technology ED because it determined that doing so would detract from the principles-based nature of the Code.

Instead, the proposed text reflects the following to assist PAs to identify whether close business relationships arise when applying Section 520 to technology-related business relationships:

- Provides an example of a close business relationship...

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9 The TWG Final Report outlined, as an illustration, a scenario where a firm’s logo was marketed prominently alongside that of a technology company’s in promoting a software product. The involvement of the firm was limited to a very specific component within the considerably more comprehensive product being marketed by the company.

The TWG Final Report notes that stakeholders believe that such co-branding and joint marketing initiatives might be misleading to potential purchasers or licensees of the technology tool being promoted. These potential purchasers or licensees might place an additional degree of reliance or trust on the promoted tool/application because they think that the firm’s association with it means that it has been appropriately tested by the firm.

The Working Group recommended to consider revising Part 3 of the Code in this context, and noted that prompting firms to be more transparent about their involvement in the development of technology-based tools/applications would help users better understand the nature and extent of the relationship between the firm and the technology or other company.
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<tr>
<th>Phase 2 Report Recommendation</th>
<th>TTF/ TWG Discussions and Considerations</th>
</tr>
</thead>
<tbody>
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<td>relationship where a firm and a client co-develop products or solutions which one or both parties sell or license to third parties other than the firm’s audit clients.</td>
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<td>• Provides an example of a close business relationship where a firm sells, resells, distributes or markets the client’s products or services, or the client sells, resells, distributes or markets the firm’s products or services.</td>
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<td>• Prompts PAs to consider situations where, depending on the facts and circumstances, arrangements under which the firm or a network firm licenses products or solutions to or from a client might create a close business relationship.</td>
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<td>The TTF and TWG note that firms are increasingly entering into business relationships involving co-branding, joint marketing, and joint promotion initiatives with other professionals (not only technology companies).</td>
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<td>The observations cited in the TWG Final Report raise a number of questions for the IESBA’s consideration, including whether it is time for the IESBA to consider undertaking a project to holistically review how the Code deals with business relationships more broadly.</td>
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<td>In this regard, the following matters are relevant:</td>
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<td>• Extant Section 310 Conflicts of Interest might address some of the issues in recommendation I of the TWG Final Report.</td>
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<td>• Some respondents to the IESBA’s 2022 Strategy Survey suggested the need for a holistic review of Section 520 Business Relationships. This was also suggested by IOSCO and supported by the IESBA’s Benchmarking Working Group following the finalization of its Phase 1 initiative.</td>
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<td>• ED respondents’ suggestions to add a general principle(^{10}) for identifying or assessing close business relationships in Section 520 and to add a definition(^{11}) of “business relationships” in the Glossary.</td>
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**Suggested Way Forward for Recommendation I:**

The factors to be considered regarding business relationships extend beyond the area of technology, and this has been raised by stakeholders in the context of several IESBA initiatives.

As such, the TWG recommends that it be considered as part of the IESBA’s ongoing strategic planning, and that it be included in the SWP CP as a potential new work stream.

In this regard, the TTF notes the TWG’s view on this matter. However, it has not discussed such view as it believes the matter goes beyond the remit of the Technology Project.

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\(^{10}\) **PAOs:** HKICPA

\(^{11}\) **Firms:** BDO