IESBA International Ethics Standards Board for Accountants®

Agenda Item 8-A

Technology Project – Presentation Slides (Significant Issues and Task Force Responses)

IESBA Meeting – September 2022

Mr. Rich Huesken, IESBA Member and Technology Task Force Chair



Objective

IESBA to consider significant issues from the ED feedback and the TF's:

- Proposed responses (Agenda Items 8 and 8-C); and
- Related revisions to the ED (Agenda Item 8-B).





The TF welcomes advance feedback on its responses to the ED comments and related revisions on the proposed text by September 9, 2022.

Please email kamleung@ethicsboard.org.

Recap: Technology ED

"…generally, the Code currently provides high level, principles-based guidance for most technology-related ethics issues that professional accountants and firms might encounter..."

INFORMED BY:

- Phase 1 Report
- Role and Mindset project
- NAS project
- Two global surveys on "complexity" and "auditor independence"
- Stakeholder outreach
- Preliminary insights from the TWG's fact-finding

CONSIDERED:

- CAG feedback up to Sept 2021
- PIOB PI issues up to Dec 2021



Phase 1 report available here

Stakeholder Engagement on ED Proposals Other than Comment Letters

March 2022:

- Malaysian Institute of Accountants CFO Circle
- IFIAR Standards Coordination Working Group

April 2022:

- Technology ED Global Webinar (> 70 jurisdictions)
- New York State Society of CPAs Professional Ethics Committee
- IFAC Small-medium Practices Advisory Group

May 2022:

- Accountancy Europe: Professional Ethics and Competences Working Party and Corporate Reporting and Digitalization Task Force
- South African Institute of Chartered Accountants

Stakeholder Group Indicated by Webinar Participant	#
Regulators and other audit oversight authorities	20
Investors and other users of the financial statements	1
Those charged with governance, including audit committees and board of directors	4
Public sector organizations	4
National Standard Setters	18
IFAC Member Bodies	31
Accounting Firms, including Sole Practitioners	113
Preparers and other professional accountants in business, including internal auditors	16
Academics and educators	9
Others, including those not indicated	73
Total	**289**

May-June 2022:

Online Survey Trialed:
- Encourage TCWG and Investor Comments

Survey Responses Not Usable:
- Low response rate
- Incomplete responses

Activities since last IESBA Meeting



❑ TF Virtual Meetings (4)

- ➢ Discuss Comment Letter Issues
- ➢ TF Proposed Responses
- ➢ TF Revisions to Draft Text

❑ Joint WG and TF Virtual Meeting (1)

- ➢ Discuss WG Report Recommendations

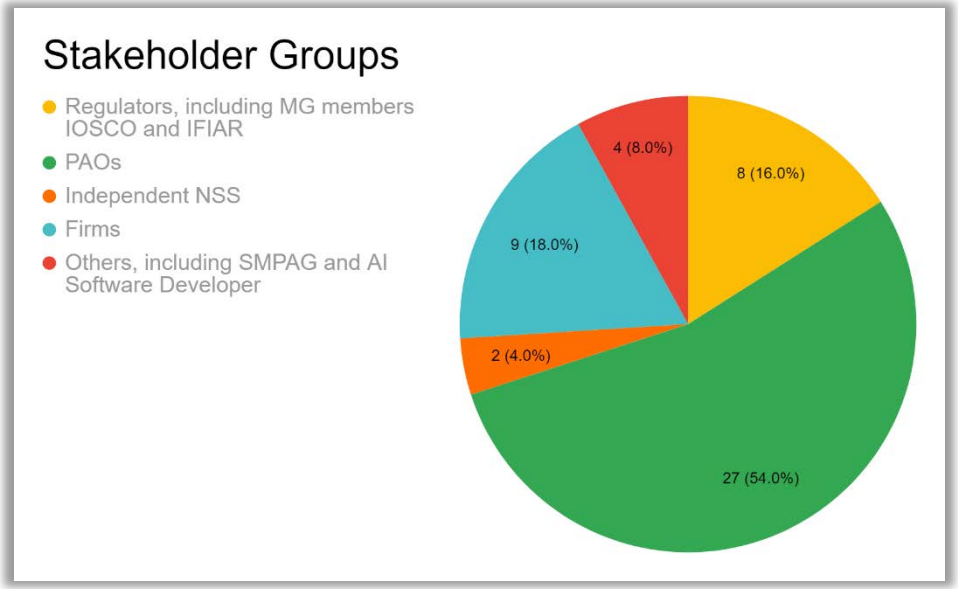
❑ Upcoming TF In-Person Meeting (1)

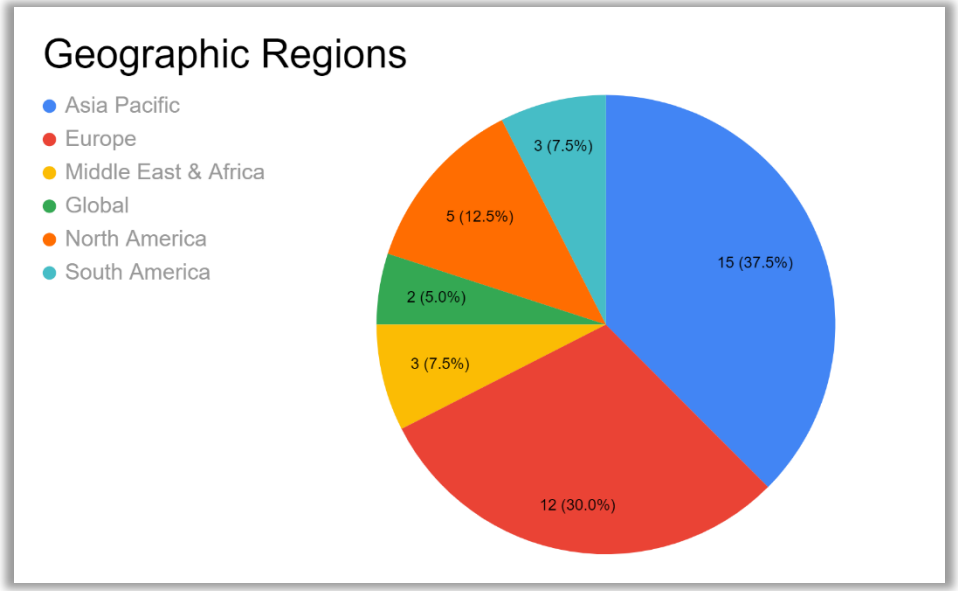
- ➢ After Sept Board Plenary re Technology
- ➢ Consider Board Input on Comment Letter Issues
- ➢ Develop Turnaround Revisions

ED Respondents

Stakeholder	#
Regulator, OA incl. MG	**8**
Independent NSS	2
Public Sector Organizations	0
Preparers and TCWG	0
PAOs/NSS	27
Firms	9
Others, incl. Software Developer	4
Total	**50**

Region	#
Asia Pacific	15
Europe	12
GLOBAL	12
South America	3
Middle East & Africa	3
North America	5
Total	**50**





- ED Release: Feb 18
- Deadline: Jun 20

50 letters

On Balance, Clear Support for ED Proposals



- ✓ Suggestions to refine text
- ✓ Areas of clarification

Significant Issues

- ❑ Professional Skills *(ED para. 113.1 A1)*
- ❑ Confidentiality *(ED S114 and Glossary)*
- ❑ Complex Circumstances *(ED para. 120.13 A1 to A3)*
- ❑ Use of Technology (ED S200, S220, S300 and S320)
- ❑ Close Business Relationships *(ED para. 520.3 A2, 520.7 A1 and 600.6)*
- ❑ Hosting *(ED para. 606.3 A1)*

Professional Skills (ED para. 113.1 A1)

ED proposal: Highlighted the non-technical professional skills needed by PAs (i.e., interpersonal, communication and organizational skills)

- **Reserved support**
- **Some had reservations on:**
  - Whether "soft skills' are relevant in the Code, as opposed to being important in the context of the realities of practice.
  - Generic wording adds no value and will lead to inconsistent application.
  - Inadvertently create barriers to entry for individuals into the profession; discriminatory effect on neurodiverse individuals.
  - Lack of an apparent linkage or relevance to the technology project.
- **Some had suggestions to:**
  - Clarify that the level of soft skills, understanding and technology-related developments required of the PA should be commensurate with the nature of their roles and responsibilities/ type of service provided.
  - Include additional skills required for digital age – *"e.g. innovative thought leadership, adaptability, initiative, responsiveness, change management, managing technological disruption, evolving work practices."*

Revised 113.1 A1 and New 113.1 A2 (ED Mark-Up)



TF Response:

- Clarified that the level of knowledge and skills, incl technology-related knowledge, vary depending on PA activity.
- TF views the inclusion of additional digital skills too detailed for the Code.
- Explain in BfC:
  - Relevance to Tech Project.
  - Such skills are already required by the Code, the revisions seek to explicitly emphasize them.

ED Mark-Up

113.1 A1 Serving clients and employing organizations with professional competence requires~~:~~ ~~(a) T~~the exercise of sound judgment in applying professional knowledge and skills~~ ; and~~

113.1 A2 ~~(b)~~ The ~~application of~~ knowledge and skills necessary to provide a professional activity vary depending on the nature of the activity being undertaken. For example, activities that involve interaction with entities and individuals with which the professional accountant, the firm or the employing organization has a professional or business relationship might require interpersonal, communication and organizational skills. Activities that involve technology might require knowledge of a particular technology and its operation.

Confidential Information (CI) (ED para. 114.1 A1 and Glossary)

ED proposals: Introduced (1) an explicit prompt for PAs to secure CI in the course of the entire data governance cycle; and (2) a proposed definition to encompass all the possible scenarios in which information might be obtained and establishes a threshold for CI, i.e., information that is not in the public domain.

➢ **Broad Support, with requests for clarifications and additional suggestions:**

- Include examples of when it could be appropriate for PAs to seek consent to share anonymized CI for the purposes of developing new technology, where appropriate safeguards are in place.
- Emphasize a PAs obligation to comply with the requirements of confidentiality even if there has been improper disclosure by others.
- Further clarity on “public domain” in the definition of confidential information. Observations that such term is often associated with copyright.
- Clarify expectations of a PA when maintaining CI as the term “secure” can be broadly interpreted.
- Additional guidance to consider complexities arising from multi-jurisdictional laws and regulations that govern CI, including privacy.

Revised R114.1 and 114.1 A1 (ED Mark-Up)



TF Response:

Developed new sub-bullet R114.1(h) to explicitly require PAs to maintain confidentiality even if CI is publicly available or has been improperly disclosed.

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~~in the course 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~~in the course 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~~in the course 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~~in the course 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, comply with~~respect~~ the accountant's duty of confidentiality; and

(h) Maintain confidentiality of information that has become publicly available even if the accountant is aware that such information has been improperly disclosed.

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~~ protect the confidentiality of such information in the course of its collection, use, transfer, storage, retention, dissemination and lawful destruction.

Revised 114.1 A3 (ED Mark-Up)



TF Response:

Developed new bullet to explicitly consider jurisdictional laws and regulations including those governing privacy.

114.1 A3 In deciding whether to disclose or use 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 or use 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 or use, the information, include:
  - Unsubstantiated facts.
  - Incomplete information
  - Unsubstantiated conclusions.
- The proposed means of communicating, the information.
- Whether the parties to whom the information is to be providedaddressed or access is to be granted are appropriate recipients.
- Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place.

New 114.1 A4 and Revised Definition of CI (ED Mark-Up)



[114.1 A4 The circumstances in which a firm or employing organization seeks consent to use confidential information, or disclose confidential information to third parties, include 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. When obtaining the consent of the individual or entity that provided such information, factors to be disclosed (preferably in writing) include:

(a) The nature of the information to be used;

(b) The purpose for which the information is to be used by the individual or entity obtaining consent (for example, training, development of technology, research or benchmarking data or studies);

(c) The individual or entity who will undertake the purpose for which the information is to be used;

(d) Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the purpose for which the information is to be used.]

Glossary (ED Mark-Up)

Confidential information	Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not publicly available ~~is not in the public domain~~.

TF Response:

- Developed a new para. 114.1 A4:
  - o Gives examples where such use might be appropriate.
  - o Additional factors to consider when providing or using CI.
- Builds on extant para. 114.1 A2 (b) and 114.1 A3; which address the use of CI when consent and laws permit, and provides factors to consider when disclosing or using CI.
- Refined definition of CI.

Identifying Threats (ED para. 200.6 A2 and 300.6 A2)

ED proposal: Introduced considerations to help in identifying threats that might arise when PAs rely upon the output from technology.

- **Generally supportive**
- **Questions over:**
  - Meaning of the ED bullet "whether technology incorporates expertise or judgements of the accountant or the employing organization/ firm:"
    - Does the expertise/judgment relate to a PA setting the parameters of technology? Or that exercised by the PA in the delivery of a professional activity regardless of delivery mode?
  - Whether it is reasonable to expect a PA to have sufficient expertise or understanding to be able to use and explain the technology:
    - Access to an expert with such expertise or understanding should be regarded as equivalent.

- **Suggestions to:**
  - Link the considerations to specific threats to compliance with the fundamental principles.
  - Add a sub-heading "Identifying threats associated with the use of technology."
  - Add additional considerations, e.g., inputs and data, sophistication/maturity of technology, etc.
  - Add "safeguards" to address the threats, e.g., third-party certifications of the technology.
  - Add expectations in relation to documentation.
  - Add specific issues to be considered by PAs in relation to the training of AI systems.

Revised 200.6 A2 (ED Mark-Up)

Mirrored in 300.6 A2



Identifying Threats Associated with the Use of Technology

200.6 A2 The following are examples of facts and circumstances relating to the use of technology ~~is a specific circumstance~~ that might create threats for a professional accountant when undertaking a professional activity: ~~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:~~

- Self-interest Threats
  - The data available is not sufficient for the effective deployment of the technology.
  - ~~Whether i~~Information about how the technology functions is not available to the accountant.
  - ~~Whether t~~The technology is not appropriate for the purpose for which it is to be used.
  - ~~Whether t~~The accountant does not have sufficient expertise, or access to an expert with sufficient understanding, ~~has the professional competence~~ to ~~understand,~~ use and explain the output from the technology, for the purpose intended. (Ref: Para. 230.2).
- Self-interest or Self-review threats
  - Use of ~~Whether~~ the technology ~~incorporates~~ requires the ~~expertise~~ knowledge, expertise or judgment~~s~~ of the accountant or the employing organization.
  - ~~Whether T~~the technology was designed or developed using the knowledge, expertise or judgment of ~~by~~ the accountant or employing organization ~~and therefore might create a self-interest or self-review threat~~.

TF Response:

- Linked the considerations to the threats, sub-heading added.
- Refined drafting of 200.6 A2 and 300.6 A2 to distinguish expertise/judgment when:
  - Using technology in performance of an activity. (Penultimate Bullet).
  - Designing/developing technology. (Last Bullet).
- Added reference to “access to an expert” to enable a PA to use and explain the output from the technology.
- Considered and addressed other key suggestions.

New 200.7 A4 (ED Mark-Up)

Mirrored in 300.7 A6



TF Response:

- Developed new AM to provide examples of where a PA's work/operating environment impacts the evaluation of the level of a threat.
- Separately, views that:
  - Code's current provisions on documentation are sufficient.
  - Considerations specific to using AI is better placed in NAM.

ED Mark-Up

200.7 A4 The professional accountant's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the employing organization and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology are undertaken by a third-party.
- Training is provided regularly to all relevant employees so they obtain the professional competence to sufficiently understand, use and explain the output from the technology.

Using the Output of Technology (ED para. 220.7 A2 and 320.10 A2)

ED proposal: Introduced examples of factors for PAs to consider in determining whether reliance on or use of the output of technology is reasonable or appropriate for the intended purpose.

➢ **Generally supportive, with suggestions to:**

- Include additional factors, e.g., controls over user access and management.
- Clarify how the reputation of a software developer is assessed.
- Emphasize the accountability of PAs – which is particularly relevant where the decision-making is automated – by adding consideration of the "decisions made by individuals relating to the operation of the technology."

➢ **Reservations over:**

- Using the output of technology in same section as using the work of an expert.
- The focus on the "output" of technology and not the whole process.

Revised S220 (ED Mark-Up)

Mirrored in S320



Using the Output of Technology

R220.8 A professional accountant who intends to use the output of technology, whether that technology was 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.~~8~~7 A12 Factors to consider when a professional accountant intends to use ~~in determining whether reliance on~~ the output 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,~~ assess the reasonableness, and explain the output of the technology having regard to~~for~~ the ~~context in~~purpose for which it is to be used.
- ~~Whether the technology is established and effective for the purpose intended.~~
- Whether the ~~new~~ technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted~~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 or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

220.~~9~~7 A13 Another consideration is whether the professional accountant's is in a position within the employing organization ~~impacts the accountant's ability~~ to obtain information in relation to the factors required to determine whether to use ~~reliance on~~ the work of others or ~~on~~ the output of technology ~~is reasonable~~.

TF Response:

- Introduced discrete section for using the output of technology.
- Added bullet on the controls relating to the use of technology, including user access.
- Replaced "reputation of developer.." which was considered unclear, with prior experience and general acceptance of technology.
- BfC to explain that the revisions focus on the whole process (bullets 6-8 consider the inputs, controls and oversight by an EO or firm).
- Aligned phrase "use of output of experts" and "use of output of technology" in Parts 2 and 3 of the Code; noted it aligns with IAASB terminology.

Complex Circumstances (ED para. 120.13 A1 to A3)

ED proposal: New guidance to help PAs navigate complex circumstances, responsive to survey titled Technology and Complexity in the Professional Environment where 82% of respondents supported such approach.

- **Mixed Views**
- **Some had reservations on:**
  - Necessity of the AM, "complex" is an extension of 'complicated' and addressed by the Code.
  - Unclear how it would be applied in practice; too general and vague.
  - Consistency with the IAASB's use of "complexity" as an inherent risk factor in ISA(R) 315.

- **Some had suggestions to:**
  - Incorporate the guidance into existing material of the conceptual framework.
  - Incorporate the technology-related example in paragraph 23 of the EM.
  - Develop of non-authoritative guidance to clarify, explain and illustrate how the AM is applied in practice.



New 120.5 A6 and A7 (ED Mark-Up)

- New 120.5 A6 replaces ED para. 120.13 A1 & A2.
- New 120.5 A7 replaces ED para. 120.13 A3.



120.5 A6 ~~120.13 A1~~ The circumstances in which professional accountants carry out professional activities and the factors involved vary considerably in their range and complexity. The professional judgment exercised by accountants might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in. ~~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 Complex circumstances arise where the relevant facts and circumstances involve: (a)~~ elements of the facts and circumstances that are uncertain~~;~~ and ~~(b) multiple~~ variables and assumptions that ~~which~~ are interconnected or interdependent. ~~Such circumstances might also be rapidly changing.~~

120.5 A7 ~~120.13 A3~~ Managing complexity might include:

- Analyzing, and investigating, as relevant, any uncertain elements, the multiple variables and assumptions and how they are connected or interdependent
- Using technology to analyze relevant data to better inform the professional accountant's judgment.
- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.
- ~~Monitoring~~ Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the accountant has made. (Ref: Para. R120.9 and 120.9 A1)
- Making the firm or employing organization and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances.

TF Response:

- Noted respondents' understanding of "complex": spectrum of difficulty vs a distinct concept.
- TF view is to align conceptually with IAASB use of term to promote consistent application.
- TF priority is the ease of understanding and applicability to the average PA.
- Simplified drafting and relocated 'complexity' within existing guidance for "exercising professional judgment."

Close Business Relationships (CBR) (ED para. 520.3 A3)

ED proposal: Introduced an example of a close business relationship arising from the provision of technology.

➢ **Broad support with some suggestions to include:**

- Products or solutions related to technology which one or both parties use for their internal purposes.
- An example similar to that contained in paragraph 40 of the explanatory memorandum where firms are licensing software: (a) to their audit clients, who are in turn directly utilizing the technology in the delivery of services to their own customers/clients; or (b) from an audit client and directly using the technology in the delivery of services to their clients.
- A general principle for the identification or assessment “close business relationships”, recognizing that the examples provided cannot cover all scenarios.

New 520.3 A3 (ED Mark-Up)

Mirrored in 920.3 A3



TF Response:

- Explicitly highlight that arrangements under which the firm or a network firm licenses products or solutions to or from a client might create a close business relationship
- Couched in “might create” as whether it is a CBR depends on the facts and circumstances:
  - Varied nature of these licensing arrangements and how the technology is used.
  - Instances where such arrangements are purchases in the ordinary course of business (for example, a firm licensing from an audit client products or solution which comprise of office software).
- Development of general principle outside scope of technology project, but TF notes a holistic review of S520 is under consideration in the development of the SWP.

New 520.3 A3 (ED Mark-Up)

520.3 A3 Arrangements under which the firm or a network firm licenses products or solutions to or from a client might create a close business relationship.

CBR and NAS (ED para. 520.7 A1 and 600.6)

ED proposal: Prompt firms to consider the relevance of the NAS provisions in S600 when technology is provided, sold, resold or licensed by a firm or a network firm to an audit client.

- **Broad support for the proposal with some reservations and suggestions.**

Comments included:

- Questions over necessity of AM; along with concerns that the inclusion of the NAS reference in S520 may confuse users of the Code since the independence considerations in S520 and S600 are different.
- Concern that the AM gives impression that pure reselling or selling creates a NAS.
- Include additional clarity on “indirect” provision of services to cater for scenarios where firms have developed software for non-audit clients, who subsequently use this software to provide a service to the firm’s audit clients.

CBR and NAS: TF Response



Recap: Survey titled The Impact of Technology on Auditor Independence indicated that 24% of respondents did not think that NAS provisions are relevant when a firm sells or licenses technology that performs a NAS.

TF Response:

- Noted that the survey results indicated a significant minority do not realize the NAS provisions apply when a CBR performs a NAS.
- TF views it is important to retain a signpost to S600 within S520, so that users of the Code who might look to S520 for guidance in such circumstances will be guided by proposed paragraph 520.7 A1 to refer to and consider the provisions in S600.
- Introduced explicit consideration of indirect downstream impact of licensing technology that performs a NAS.
- BfC to explain that whether selling, reselling (including “pass-through” scenarios) or licensing of technology performs a NAS depends on the specific facts and circumstances.

Revised 520.7 A1 and 600.6 (ED Mark-Up)

Mirrored in 920.6 A1 and 950.5



520.7 A1 If a firm or a network firm provides, sells, resells or licenses technology:

(a) ~~t~~To an audit client; or

(b) To an entity that provides services using such technology to audit clients of the firm or network firm,

the requirements and application material in Section 600 apply.

Signpost in S520: Whether it is NAS *depends on facts & circumstances*.

600.6 The requirements and application material in this section ~~also~~ apply ~~in those circumstances~~ where a firm or a network firm:

(a) ~~A firm or a network firm u~~Uses technology to provide a non-assurance service to an audit client; or

(b) ~~A firm or a network firm p~~Provides, sells, resells or licenses technology that provides a non-assurance service:

(i) To an audit client; or

(ii) To an entity that provides services using such technology to audit clients of the firm or network firm.

Consideration of "indirect" services: Firm develops software for non-audit clients, who subsequently use this software to provide a service to the firms' audit clients.

Hosting (ED para. 606.4 A3)

ED proposal (para. 606.4 A3): *"Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm: … Provides services in relation to the hosting (directly or indirectly) of an audit client's data".*

- **Broad support, but questions/reservations on, and suggestions to:**

- Clarify scope of the prohibition as currently too broad and unclear.
- Questions over what "provision of services.." and "indirectly" covers.
- Questions about whether the prohibition covers, for e.g., vendor selection services for hosting platform, providing benchmarks on capacity requirements, portals to transfer client data for completion of a professional service.

Revised 606.3 A1 and A2 (ED Mark-Up)

Mirrored in 900.13 A4



606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Stores data or manages (directly or indirectly) the hosting of data on behalf of the audit client. ~~Provides services in relation to the hosting (directly or indirectly) of an audit client's data.~~ Such hosting includes:

  (a) Acting as the only access to a financial or non-financial information system of the audit client;

  (b) Taking custody of or storing the audit client's data or records such that the audit client's data or records are otherwise incomplete; or

  (c) Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the audit client's data or records.

- Operates, maintains, or monitors the audit client's IT systems or website.

- ~~Operates an audit client's network security, business continuity or disaster recovery function.~~

606.3 A2 The collection, receipt, transmission and retention of data provided by an audit client in the course of an audit or to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

TF Response:

- Replaced *"provision of services in relation to hosting"* in lead-in, recognizing it is too broad.
- Introduced a ring-fence over the scope of hosting (sub-bullets (a) to (c)).
- Added "transmission" to ED para. 606.3 A2 to clarify that portals used for communication during the performance of a permissible service is not prohibited.



Other Key Revisions to the ED



Ethical Leadership (ED Mark-Up) (1)

120.134 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) Exhibit ~~Demonstrate~~ ethical behavior in dealings with ~~business organizations and~~individuals with which the accountant, the firm or the employing organization has a professional or business relationship.

Rationale

Address respondents' comments that the word "demonstrate" creates unintentional documentation requirements.

Ethical Leadership (ED Mark-Up) (2)

Mirrored in 300.5 A2

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 and exhibit ethical behavior in dealings with those entities and individuals with which the accountant or the employing organization has a professional or business relationship in accordance with paragraph 120.134 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.

Rationale

Incorporate suggestions to better align wording in Parts 2 and 3 with 120.14 A3.

IT Systems Services (ED Mark-Up)

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, including those related to cybersecurity.
- Supporting an audit client's IT systems, including network and software applications.
- Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm.

Prohibited for PIE audit clients

Rationale

Address suggestions to:

- Include an example of cybersecurity services.
- Make it explicit that the examples listed always create a SRT.

Routine or Mechanical (ED Mark-Up)

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 the activities performed by, and the output of, the technology, and ~~how the technology functions and~~ whether the technology ~~is based on~~provides an automated service that is based on or requires the expertise or judgment~~s~~ of 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:

For Non-PIEs

Rationale

- Incorporates drafting suggestions and other factors provided by respondents.
- TF considered a suggestion to remove “mechanical” from the phrase “routine or mechanical” but decided not to proceed as the intended outcome of the AM is not different.

Technology and Management Responsibility (ED Mark-Up)

400.16 A1 When technology is used in performing a professional activity for an audit client, the requirements in paragraphs R400.15 and R400.16 apply regardless of the nature or extent of such use of the technology.

Rationale

- Drafting edit to clarify that the AM applies whenever technology is used, whether to supplement a PA's activities or in place of a PA.
- TF considered the necessity of the provision in light of a comment that it is not needed. However, TF believes that this AM is needed to address a possible misconception that users of the Code might believe that automated services might not assume management responsibility.
- TF considered the view that the AM is too broad, i.e., implies the use of email = assumption of management responsibility. The TF notes that any use of technology (even e-mail) in the performance of a professional activity will need to comply with R400.15 and R400.16.

Non-financial Reporting (ED Mark-Up)

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

(d) Undertaking an engagement in relation to elements of non-financial information where the IT systems or IT controls that form part of or affect a client's records or system of internal control over those elements of non-financial reporting were designed, developed, implemented, operated, maintained, updated or upgraded by the firm.

Rationale

Incorporate additional scenario suggested by respondents.



Other Concerns/Questions Raised



Other Concerns/Questions and TF Response (1)

A concern that the definition of a PAIB does not include their EO (unlike a PAPP). Impacts the ability of PAIBs to comply with revisions in practice (i.e., must involve IT teams).

TF Response:

- Definition of a PAIB is out of scope of Technology project.
- However, TF notes that the revised proposals:
  - Recognizes a PA's work environment within the employing organization and its operating environment, i.e., level of corporate oversight and internal controls over the technology. (p. 200.7 A4/300.7 A6)
  - Highlight the oversight of the technology and the relevant controls relating to the use of technology as factors to consider when using technology. (p. 220.8 A1/320.11 A1, bullets 6 and 7)
  - Recognizes that a PA's position in the EO or firm will impact its ability to obtain information in relation to the factors required to determine whether to use the work of others or the output of technology. (p. 220.9 A1/320.12 A1)
- Extant p. R220.7 to 220.7 A1 and R320.10 to 320.10 A1 are also relevant to a PA's use of the work of others or experts, for example, including IT teams or IT experts with an EO or firm.

Other Concerns/Questions and TF Response (2)

Question about whether the revisions apply to all technology (i.e., which ranges from excel to AI).

TF Response:

- Use of the term technology was intentionally broad to encompass all technology, including those commonly used now to those yet unknown.
- TF view is that the revisions apply to all technologies, and that professional judgment should be exercised by a PA when determining the level of knowledge, understanding, oversight, etc, required to use technology. It is observed that just because excel is commonly used, it does not preclude the fact that it still might create that threats to the fundamental principles depending on the facts and circumstances.
- BfC to elaborate the aforementioned rationale.

Other Concerns/Questions and TF Response (3)

Concern over the pace of changes to the Code, its length and increasing number of rules-based requirements on top of the conceptual framework.

TF Response:

- Noted and to refer to the Planning Committee/ IESBA to consider in developing its 2023-2027 SWP.



Next Steps



Next Steps



Timing	Next Steps
Sept 2022	• TF in-person meeting following Sept plenary session to consider Board comments
Sept 2022	• IESBA CAG to provide input on the Task Force's summary of the significant ED comments and its related responses
Oct/ Nov 2022	• Outreach with IFIAR SCWG and IOSCO C1
Dec 2022	• IESBA to consider a full review of ED responses and the Task Force's related revisions to the proposed text
Mar 2023	• IESBA CAG to provide final advice for IESBA consideration in finalizing the project • IESBA to approve final technology-related revisions to the Code and determine the effective date

Questions/ Comments





Appendix – Overview of Technology ED



Recap: Key Technology ED Proposals

Draws attention to the **competence**, **confidentiality**, & **leadership** imperatives of the digital age

Considers the ethical threats from **reliance on the output of technology** & **complex circumstances**

Addresses the ethical dimension of **reliance on, or use of, the output of technology**

Strengthens **auditor independence** for technology-related services & business relationships

Applies to assurance on **non-financial information** (i.e. ESG disclosures)

- ❑ *Comment Letters received available here.*
- ❑ *Webinar explaining ED proposals available here.*

Recap: Builds on Role & Mindset Revisions

Already Effective

- Professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and **technology-related developments**
- Exercise of professional or business judgment can be compromised by undue influence of, or **undue reliance** on, individuals, organizations, **technology** or other factors
- **Bias** affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles
  - e.g., **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

Recap: Builds on NAS Revisions

Effective December 2022

Technology-related NAS

Under revised NAS provisions:

- Firms to consider the **manner** in which a NAS is to be provided in identifying and evaluating threats to independence
- New guidance explains how to determine **"routine or mechanical"** accounting and bookkeeping services
- Prohibition on services that might create a **self-review threat** (SRT) for PIE audit clients
- Prohibition on services involving **designing or implementing IT systems** for PIE audit clients that:
  - (1) Form part of the internal control over financial reporting; or
  - (2) Generate information for the client's accounting records or financial statements

IESBA®

www.ethicsboard.org

@Ethics_Board

@IESBA

YouTube @IESBA