

Meeting: IESBA CAG

Meeting Location: Virtual

Meeting Date: March 7, 2022

Agenda Item D-2

Report Back – Technology Project

Objective of Agenda Item

1. To report back on the discussion at the September 2021 IESBA CAG session relating to the proposed technology-related revisions to the Code.¹

Project Status and Timeline

2. The IESBA unanimously approved the [technology project proposal](#)² at its March 2020 meeting to develop technology-related revisions that are necessary for the Code to continue to remain relevant and fit for purpose in response to the transformative effects of major trends and developments in technology on the work of the global accountancy profession.
3. Since March 2020, the IESBA CAG met virtually on three occasions, to provide input on the Task Force's proposals. The Appendix to this paper provides a history of previous discussions with the IESBA and CAG on the technology project.
4. At the December 2021 meeting, the IESBA approved for exposure the proposed technology-related revisions to the Code. In February 2022, the IESBA released the Exposure Draft (ED), [Proposed Technology-related Revisions to the Code](#), which will be open for public comment until June 20, 2022. **CAG Member Organizations are strongly encouraged to submit a comment letter in response to the IESBA's Technology Exposure Draft.**
5. The CAG will receive a full analysis of significant issues raised by respondents to the ED and the Task Force's related responses in September 2022.

¹ The proposed technology-related revisions are to the most current version of the Code ("extant Code"), including all revisions that will become effective in December 2022 (i.e., revisions relating to the objectivity of an engagement quality reviewer and appropriate reviewers, and the revised non-assurance services (NAS) and fee-related provisions of the Code). The proposals also take into account the revisions that the IESBA approved in December 2021 that are subject to PIOB approval (i.e., the quality management-related conforming amendments to the Code, and the revisions relating to the Definitions of Listed Entity and Public Interest Entity (PIE)).

² The project proposal was informed by a Working Group Report which was issued in December 2019 (Phase 1 Report) and summarized the IESBA's 2018-2019 fact-finding and research on the impact of trends and developments in artificial intelligence (AI), big data, and data analytics on the ethical behavior of professional accountants, both in business (PAIBs) and in public practice (PAPPs).

Highlights of the Proposed Technology-related Revisions to the Code

6. The proposed technology-related revisions to the extant Code have been developed in a principles-based manner in order to preserve the relevance of the Code as technology evolves.³ Accordingly, the use of the term “technology” in the proposals is broad and is meant to encompass all technologies (including artificial intelligence and machine learning, blockchain, and other future technologies not yet known).
7. In developing the proposed technology-related revisions, the IESBA reviewed and considered the entire Code, including the independence provisions. In addition to the advice received from the CAG, the IESBA’s proposals were informed by:
 - Extensive stakeholder outreach and fact finding, including the observations of the IESBA’s Technology Working Group.
 - Stakeholder responses to two global [technology surveys](#).⁴
 - Technology-related feedback on the IESBA’s January 2020 NAS [Exposure Draft](#) that the Board determined would be addressed by the Technology Task Force.⁵

Proposed Revisions to Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework

8. Key proposed revisions to Part 1:
 - Expand on the extant Code (including the role and mindset revisions) to acknowledge further technology-related considerations in describing the fundamental principles of professional competence and due care and confidentiality (see proposed revisions to paragraphs 113.1 A1, R113.3, 114.1 A3; and proposed paragraph 114.1 A1 and the glossary).
 - Provide additional considerations to assist in applying the conceptual framework, including:
 - A recognition that public trust is driven in part from a professional accountant’s (PA’s) ethical behavior in professional or business relationships, which might involve technology-related facts and circumstances (see proposed revisions to paragraph 120.14 A3).
 - A discussion of complex circumstances and why these circumstances are a consideration in applying the conceptual framework. The discussion includes a description of the facts and circumstances involved when complex circumstances arise and provides guidance to assist PAs manage such circumstances or mitigate their impact (see proposed paragraphs 120.13 A1 to A3).

³ The [Phase 1 Report](#), which states that “generally, the Code currently provides high level, principles-based guidance for most technology-related ethics issues that PAs and firms might encounter,” supports this principles-based approach.

⁴ The two technology [surveys](#) were issued by the Technology Task Force in October 2020, and pertained to the topics of “Technology and Complexity in the Professional Environment” and “The Impact of Technology on Auditor Independence.”

⁵ When the IESBA approved the NAS revisions to the Code in December 2020, the IESBA determined that technology-specific matters should be addressed as part of the Technology project (see pages 7-8 and paragraphs 102, 103, 124 and 125 of the [NAS Basis for Conclusions](#)). Section IV, A-D of the EM explains how the proposals set out in the Technology ED have addressed such matters.

Proposed Revisions to Parts 2 and 3 – Professional Accountants in Business and Professional Accountants in Public Practice

9. Within Parts 2 and 3 of the Code, the proposals:

- Provide new application material to assist in identifying threats to compliance with the fundamental principles when a PA uses or relies upon the output from technology (see proposed paragraphs 200.6 A2 and 300.6 A2).
- Provide guidance to assist PAs when they rely on, or use, the output of technology. In particular, the proposals include a range of factors and other considerations intended to guide such thinking (see proposed revisions to paragraphs R220.7 and R320.10, and proposed paragraphs 220.7 A2, 220.7 A3 and 320.10 A2).

Proposed Revisions to Parts 4A and 4B – International Independence Standards (IIS)

10. In the case of the independence provisions that apply to audit and review engagements, the proposals:

- Include clarifications and refinements to the revised NAS provisions that were issued in April 2021. In particular, proposed revisions are being made to revised Section 600 to:
 - Clarify that the NAS provisions apply (i.e., firms should consider the relevance of such provisions) in circumstances where technology is used by a firm or network firm to provide a NAS to an audit client, or where a firm or network firm provides, sells, resells or licenses technology to an audit client (see proposed paragraphs 600.6 and 520.7 A1).
 - Explicitly draw out that the client's dependency on the service, including the frequency with which the service will be provided, is relevant in identifying the different threats that might be created by providing a NAS to an audit client, and in evaluating the level of such threats (see proposed third bullet of paragraph 600.9 A2).
 - Provide a description of IT systems services that is broad in scope and goes beyond design and implementation (see proposed paragraph 606.2 A1). There is also enhanced clarity about the examples of IT system services that:
 - Result in the assumption of a management responsibility for an audit client (e.g., services relating to hosting of an audit client's data) and therefore are prohibited (see proposed paragraphs 606.3 A1 to 606.3 A2).
 - Might create a self-review threat (e.g., implementing accounting or financial information reporting software) (see proposed paragraph 606.4 A3). In the case of audit clients that are PIEs, such services are prohibited.
 - Withdraw the presumption in extant paragraph 606.4 A2 that providing certain IT system services⁶ does not usually create a threat as long as individuals within the firm or network firm do not assume a management responsibility.
 - Acknowledge that accounting and bookkeeping services can either be manual or automated and provide new application material to prompt firms' consideration of how

⁶ For example, implementing "off-the-shelf" accounting and financial information reporting software that was not developed by a firm or a network firm, if the customization required to meet the client's needs is not significant.

the technology functions and whether the technology is based on expertise or judgments of the firm or a network firm when determining whether an automated accounting or bookkeeping service is “routine or mechanical” (see proposed paragraph 601.5 A2 and proposed revisions in paragraph 601.5 A3). There is also enhanced clarity on the prohibition on assuming management responsibilities to emphasize that 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 (see proposed paragraph 400.16 A1).

- Provide enhanced clarity about the nature of technology-related arrangements that create a close business relationship (see proposals in paragraph 520.3 A2).
11. In the case of the independence provisions that apply to assurance engagements other than audit and review engagements, the proposals:
- Clarify by an explicit statement that “... [Part 4B of the Code] applies to assurance engagements on an entity’s non-financial information, for example, environmental, social and governance (ESG) disclosures” (see proposal in paragraph 900.1).
 - Include proposed amendments that are intended to preserve the existing alignment between Parts 4A and 4B of the Code (see proposed paragraphs 900.14 A1, 920.3 A2, 920.6 A1, 950.5 and 950.7 A2 third bullet).
12. Provide an example of a technology-related NAS that might create a self-review threat⁷ in relation to the subject matter information of an assurance engagement, and examples of certain technology-related professional activities that involve the assumption of management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement (see proposed paragraphs 950.10 A1 and 900.13 A4 and A5).

Report Back on September 2021 CAG Discussion

13. Below are extracts from the draft minutes of the September 2021 IESBA CAG session⁸ and an indication of how the Task Force or the IESBA has responded to the CAG’s comments.

Matters Raised	Task Force/ IESBA Response
PARTS 1 TO 3 OF THE IESBA CODE	
Mss. Blomme and Meng observed that some of the proposals, for example, in Section 113 Professional Competence and Due Care, extend broadly to all circumstances rather than being technology-specific. They questioned whether the underlying concepts were not already within the	Point accepted. Paragraphs 23 to 24, 27 and 36(b) of the Explanatory Memo (EM) that accompany the ED explain that the proposals in Sections 113 and 120 are broadly applicable in all facts and circumstances. The Task Force believes such

⁷ As proposed, the technology-related services that might create a self-review threat relate to “designing, developing, implementing, operating, maintaining, monitoring, updating IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls.”

⁸ The draft September 2021 IESBA CAG Technology session minutes will be approved at the March 2022 IESBA CAG meeting.

Matters Raised	Task Force/ IESBA Response
<p>Code's principles.</p> <p>In this regard, Ms. Meng recommended that the Task Force provide an explanation in the accompanying Explanatory Memorandum (EM) to the ED.</p>	<p>proposals will enhance the Code as it relates to the execution of a PA's professional activities more generally, which includes technology-specific circumstances.</p> <p>As part of its deliberations, the IESBA considered whether some of the concepts underlying the proposals are already incorporated and inherent in the fundamental principles of the Code, and determined that the proposed revisions build on, and enhance, such concepts already in the Code (see paragraphs 5 to 7 of the EM).</p>
<p>Ms. Blomme also noted that the number of proposed revisions appeared overwhelming and urged the Task Force to stand back and evaluate whether all the revisions are necessary.</p>	<p>Point taken into account.</p> <p>The Task Force had reflected on the proposed revisions from a “stand-back” point of view and observed that they had already been significantly refocused as compared to the December 2020 strawman. The Task Force has endeavored to strike an appropriate balance between necessary changes to the Code and maintaining its principles-based nature (see paragraphs 7 and 8 of the EM).</p>
<p>Ms. Manabat echoed the sentiments expressed and noted that it is impossible to address all types of emerging technologies in the Code due to the dynamic and evolving nature of technology, citing XBRL as an example of a common place technology which was seen as emerging a few years ago.</p>	<p>Point accepted.</p> <p>The proposed technology-related revisions to the extant Code have been developed in a principles-based manner in order to preserve the relevance of the Code as technology evolves. Accordingly, the use of the term “technology” in the proposals is broad and is meant to encompass all technologies, i.e. including XBRL and other future technologies not yet known (see paragraph 8 of the EM).</p>
<p>Mr. Dalkin questioned whether there was a documentation requirement in the Task Force's proposals in relation to paragraph 220.7 A2 addressing Relying on the Work of Others or on Technology, and how the proposals interact with IAASB's ISA 540 (Revised), <i>Auditing Accounting Estimates and Related Disclosures</i>.</p>	<p>Point taken into account.</p> <p>Proposed paragraph 220.7 A2 of the ED pertains to PAIBs whereas ISA 540 (Revised) applies to auditors, i.e., PAPPs. In this regard, proposed paragraph 320.10 A2 of the ED pertains to PAPPs.</p> <p>The Task Force notes that documentation requirements in relation to the audit of accounting estimates are covered under the ISAs. Specific to the Code, documentation requirements for auditors are outlined in the IIS, in paragraphs R400.60 and</p>

Matters Raised	Task Force/ IESBA Response
	400.60 A1.
PART 4 OF THE CODE	
<p>Mr. Hansen questioned whether the Task Force had proposed any definition for what constitutes “off-the-shelf” software in Subsection 606.</p>	<p>Point taken into account.</p> <p>The IESBA believes that it is no longer appropriate to permit firms to “...implement ‘off-the-shelf’ accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client’s needs is not significant...” because the service “...does not usually create a threat...” (see paragraphs 54 to 56 of the EM). Accordingly, as part of the Technology ED, the IESBA is proposing to withdraw the related provision in extant subparagraph 606.4 A2(c).</p> <p>The proposals set out in the ED further explain that the “implementation of accounting or financial information reporting software, whether or not it was developed by the firm or a network firm,” might create a self-review threat (see proposed paragraph 606.4 A3). This means that in the case of non-PIE audit clients, firms will need to apply the conceptual framework to address the self-review threat that might be created, whereas for PIE audit clients, the provision of such a service will be prohibited.</p> <p>In coming to this view, the IESBA noted that the extant provision was intended to address situations where “off-the-shelf” accounting or financial information reporting software comprised retail software packages for direct installation on a desktop computer or laptop, which was common in prior years. Today, “off-the-shelf” software is likely to be licensed directly from the software provider and is typically tailored as part of the implementation process. The IESBA’s current thinking is that implementation of accounting or financial information reporting software might create a self-review threat regardless of materiality and the extent of tailoring (i.e., whether it is customization, configuration, or any other form of implementation).</p>

Matters Raised	Task Force/ IESBA Response
<p>Mr. Hansen questioned whether the proposals about 'hosting' address firm portals that contain financial statement information. He noted the public interest element in these circumstances as there is the risk of the financial statement information being inappropriately edited and thus misleading the public.</p>	<p>Point taken into account.</p> <p>In finalizing the ED, the IESBA determined that providing services in relation to the hosting of an audit client's data results in the assumption of a management responsibility and are therefore prohibited (see proposed paragraph 606.3 A1 of the ED). However, the proposals acknowledge that a firm or a network firm collecting, receiving and retaining audit client data to enable the provision of a permissible service does not result in the assumption of a management responsibility (see proposed paragraph 606.3 A2 of ED).</p> <p>In terms of the financial statement information being inappropriately edited during the provision of a permissible service, the Task Force acknowledged this risk, and noted that it can be mitigated by having appropriate access controls to such portals.</p>
<p>Mr. Dalkin questioned what management's responsibility in respect of hosting is and whether it can be reaffirmed by the client signing a contract acknowledging that it retains such responsibility.</p>	<p>Point taken into account.</p> <p>The proposals highlight the types of IT systems services that always involve assuming a management responsibility and are therefore prohibited for all audit clients (see proposed paragraph 606.3 A1 of the ED). In this regard, the IESBA considered that for such types of IT systems services, a firm would not be able to meet the precondition that the audit client's management will make all the judgments and decisions that are the proper responsibility of management as set out in paragraphs R400.16 and R606.3.</p> <p>The Task Force's view is that a contract signed by an audit client acknowledging management responsibility would not be sufficient to meet the requirements in paragraphs R400.16 and R606.3.</p>
<p>Ms. Blomme asked how the hosting services proposals in Part 4B of the Code would work in practice.</p>	<p>Point accepted.</p> <p>The proposed revisions to Part 4B of the Code prohibit the provision of services in relation to the hosting (directly or indirectly) of the underlying subject matter or subject matter information (see proposed paragraphs 900.13 A4 and A5 of the ED).</p>

Matters Raised	Task Force/ IESBA Response
<p>Ms. Gamboa expressed support that non-financial reporting is being addressed in Part 4B.</p> <p>She encouraged the IESBA to continue to monitor developments in this area.</p>	<p>Support noted.</p> <p>The IESBA is continuing to monitor developments in this area through its Emerging Issues Oversight Committee (EIOC). In this regard, it will receive an update on environmental, social and governance (ESG) matters at its March 2022 meeting.</p>
<p>Mr. Ishiwata thanked the Task Force for the clear explanations underlying the proposals. He expressed support for the Task Force and Working Group to continue considering the IAASB's ongoing projects that are addressing technological developments (for example, ISA 500 Audit Evidence), the latest finalized revisions to the ISAs as well as emerging technology developments in order to maintain consistency between the IESBA's and IAASB's standards.</p>	<p>Support noted.</p> <p>In developing the proposals, the IESBA coordinated with the IAASB to maintain the existing alignment and interconnectivity between the two Boards' sets of standards (see paragraph 16 of the EM). Coordination will continue in finalizing the proposals.</p>

Matter for Consideration

14. Representatives are asked to note the report back.

Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY

<p>Exposure Draft: Proposed Technology-related Revisions to the Code</p>	<p>https://www.ethicsboard.org/news-events/2022-02/iesba-takes-firm-action-respond-transformative-effects-technology</p>
--	--

Appendix 1

Project History Summary: Technology

	CAG Meeting	IESBA Meeting
Information gathering/ Discussion	March 2019 September 2019	March 2019 June 2019 September 2019 December 2019
Phase 1 Report issued in December 2019		
Project commencement, including: <ul style="list-style-type: none"> Consideration of Phase 1 Report Approval of project proposal 	March 2020	March 2020
Development of proposed international pronouncement (up to exposure)	September 2020 March 2021 September 2021	June 2020 September 2020 December 2020 March 2021 June 2021 September 2021 December 2021