

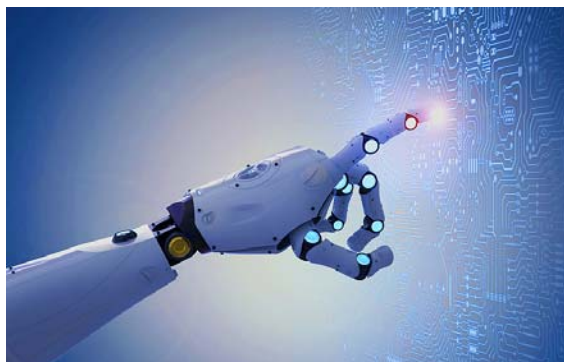
Technology

Brian Friedrich
Chair, Technology Task Force

IESBA CAG Meeting
Virtual meeting
September 1, 2020

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Objectives of the Session



- To REPORT back on March 2020 CAG discussion
- To DISCUSS the Task Force's work and thinking on issues on the Phase 2 project

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Technology

Report Back on March meeting

- Project plan approved March 2020
- Task Force is meeting virtually
- Project timeline
 - Q4 2020 outreach focus
 - Q1 2021 drafting focus
- Use cases
 - Recommendation 7 Independence
- Principles-based approach to drafting



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Project Plan Recommendations

Key Findings & Recommendations

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|--|--------------|----------------|-----------------------------|----------------------------------|--------------|
| Critical role of ethics and Professional Judgment | Complexity of the professional environment | Transparency | Accountability | Privacy and Confidentiality | Enabling competencies and skills | Independence |

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Recommendation 1: Critical Role of Ethics and Professional Judgment

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Recommendation 1:

Critical Role of Ethics and Professional Judgment

1

TF is considering amending the Code to better reflect:

- A desire to draw attention to ethical values in developing and applying technology
- The potential negative impact of technology through a loss of trust
- The role of the PA in promoting ethical culture across organizations, business partners and third parties, influencing others to act ethically as well as holding oneself and others accountable for upholding ethical principles



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Recommendation 1: Trust

Critical Role of Ethics and Professional Judgment

1

- Need for a direct reference to tech in introductory section of Code?
- Add AM in Section 120 in relation to building trust specific to tech
“Increasingly the role of the accountant, whether in business or in practice, involves the use of technology, either directly or in relation to outputs from technology driven processes. Promoting ethical behavior as a critical, consistent foundation for organizations is particularly relevant when developing and using technology given its potential impact.”
- That these matters also be addressed through non-authoritative material

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Recommendation 2: Complexity of the Professional Environment

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Recommendation 2

Complexity of the Professional Environment

2

Recommendation 2

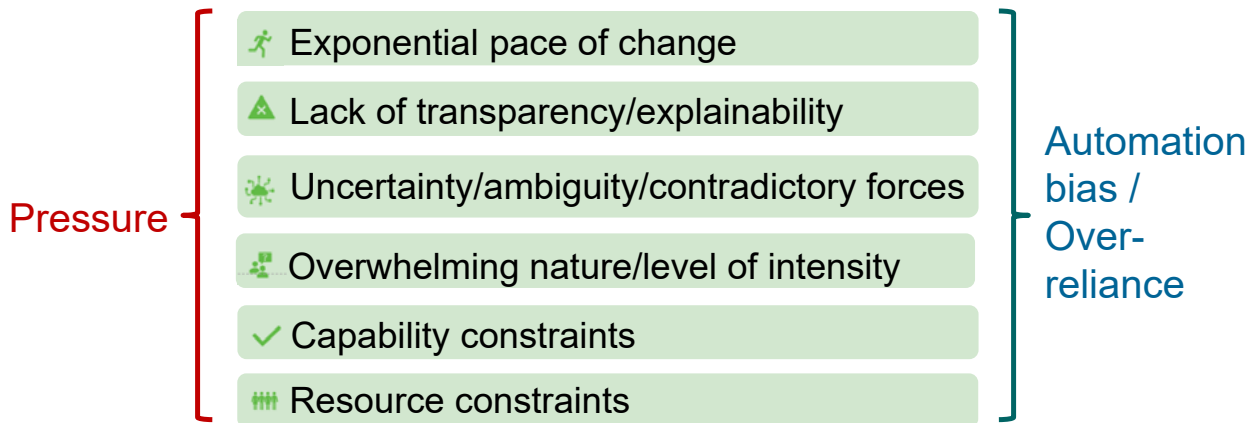
Consider revising the Code to more effectively deal with the threats caused by the complexity of the professional environment in which PAs perform their professional activities, giving consideration to options such as those described above.

- Add a new type or category of threat
- Revise definition of existing categories of threat
- Highlight "complexity" risk in s120
- Modify lead-in to para. 120.6 A3
- Add examples of "complexity" threats in ss200 and 300
- Expand references to individuals to include intelligent agents

Recommendation 2: Complexity

Elements of complexity

2



Recommendation 2: Complexity

Complicated v complex continuum

2

| Simple | Complicated | Complex |
|-------------------------|---|---|
| Known knowns | Known unknowns | Unknown unknowns |
| Cause and effect stable | Experts can generally agree within a reasonable range | Dynamic and synergistic Unpredictable result |
| No expert needed | Use experts to find best solution | Experts need to collaborate |
| Follow formula | Challenging to solve, but once solved remains solved | Manage the situation and adapt toward solution |
| | Typical in professional activity | Increasingly common |

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Recommendation 2: Complexity

Threats to compliance with the FPs

2

120.6 A3: Threat to compliance with the FPs fall into one or more categories:

| Category | The threat that... |
|---------------|---|
| Self-interest | A financial or other interest improperly influences a PA's judgment or behavior |
| Self-review | PA makes an inappropriate assessment because of reviewing ones own work |
| Advocacy | PA promotes client's/employer's position to the point of losing objectivity |
| Familiarity | PA is too sympathetic to client's/employer's interests due to close association |
| Intimidation | PA is deterred from acting objectively by actual or perceived pressures, including attempts to unduly influence |

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Is complexity missing from the CF?

2

- TF's view is that Code does *not* adequately address threats stemming from complexity:
 - Some elements tie to self-interest and intimidation, but that's not the whole picture
 - No clear trigger to prompt a PA to consider how various elements of complexity might threaten compliance with FPs



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Four non-mutually exclusive options

2

| | Location | Way in which to address complexity |
|-----|-------------------------|---|
| 2-1 | 120.6 A2-3 120.12 A2 | Modify the lead-in paragraphs to recognize the potential for additional threat categories |
| 2-2 | 120.6 A3 | Amend existing threat categories to build in missing elements |
| 2-3 | 120.6 A3 | Add one or more new threat categories |
| 2-4 | FPs PJ Factors | Highlight complexity as a pervasive factor in decision making while applying the conceptual framework |

TF sees merit in each of the four options

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Option 2-1 Permit additional threat categories

2

TF recommends Option 2-1, plus one or more other options

- It is not possible to define every situation that creates threats
- A number of threats do not readily fit in existing categories
- An open approach supports a principles-based Code
- Threat categories are in application material, not prescriptive in nature
- Opening up the wording helps “future-proof” the Code
- Opening up the wording encourages the use of professional judgment
- There is precedent set by other organizations

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Option 2-2 Amend existing threat categories

2

Benefits:

- Retains, but broadens the set of threats
- Explicitly prompts PA to identify how the complexity elements threaten one or more FPs or independence

Risk:

- Move too far away from or dilute the “definitions” that users that have both learned and applied for many years

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Recommendation 2: Complexity

Option 2-3 Add one or more threat categories

2

Benefits:

- Avoids diluting existing threat categories
- Creates a more explicit prompt for PAs to consider complexity elements

Risk:

- Difficulty in incorporating all the elements of complexity

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Recommendation 2: Complexity

Option 2-4 Highlight Complexity as Pervasive Factor in Decision Making

2

Benefits:

- Recognizes pervasive nature of complexity and allows greater opportunity to expand on underlying elements
- Current threat categories could remain as they are

Risk:

- Less explicit handling of complexity as a threat to compliance

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Recommendation 2: Complexity

Four non-mutually exclusive options

2

| | Location | Way in which to address complexity |
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| 2-3 | 120.6 A3 | Add one or more new threat categories |
| 2-4 | FPs PJ Factors | Highlight complexity as a pervasive factor in decision making while applying the conceptual framework |

Representatives are invited to comment on the TF's recommendation in favour of Option 2-1 as well as one or more additional options.

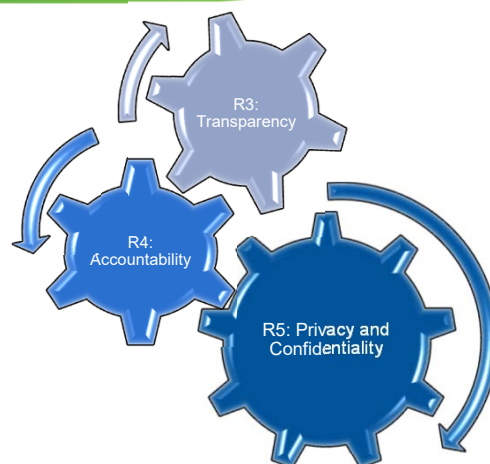
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Recommendations 3-5: Suitability of the FPs for the Digital Age

Transparency, Accountability, Privacy and Confidentiality

R3, 4, 5

- TWG analysis emphasized the inter-related nature of the impact of technology on compliance with the FPs
- R3-R5 closely inter-related in considering the suitability of the FPs for the digital age
- TF is considering R3-R5 in tandem



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Recommendation 3: Transparency

Transparency

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Recommendation 3: Suitability of the FPs for the Digital Age


Transparency

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Recommendation 3

Revise Subsection 113 (PC&DC) by expanding a PA's *responsibility* to be **transparent**, which is not currently expressly stated in the Code.

Consider that there may be circumstances that impact the extent of transparency that may be appropriate (e.g., in an audit, the type and timing of audit procedures, and in business, proprietary commercial information).



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Recommendation 3: Suitability of the FPs for the Digital Age

Transparency

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| Not withholding info to deceive | Shedding enough light to inform |
|--|--|
| Integrity FP requires honesty. Already prevents known association with materially false statements or from obscuring information to mislead | R113.3 requires the PA to ensure user of services are aware of limitations |
| <p><i>“R111.2 A professional accountant shall not knowingly be associated with ... information where the accountant believes that the information:...</i></p> <p><i>(c) <u>Lacks transparency in that it omits or obscures required information where such omission or obscurity would be misleading.</u>”</i></p> | <p><i>113.1 A3 Diligence encompasses the responsibility to act ... carefully, thoroughly and on a timely basis, <u>with consideration of the level of transparency appropriate to support decision-making by relevant stakeholders given the nature of the assignment.</u></i></p> |



Recommendation 4: Accountability



Recommendation 4: Suitability of the FPs for the Digital Age

Accountability

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Recommendation 4

Strengthen the concept of **accountability** in the Code by:

- Including new material in Subsection 111 (Integrity) on a PA's willingness to accept responsibility taking into account Role and Mindset wording
- More clearly explaining the concept of accountability in Subsection 113 (PC&DC) due to increasing use of external experts and intelligent agents
- Including appropriate references to technology in the provisions relating to relying on the work of others in Section 220

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Recommendation 5: Privacy and Confidentiality

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Privacy and Confidentiality



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Recommendation 5

Revise Subsection 114 (Confidentiality) in light of the increased availability and use of personal and other sensitive data to give appropriate consideration to **privacy related matters** and the need to actively protect information.

More principles-based approach:
Address emerging issues arising
in a technology context

Structure application material:
Confidentiality when designing
data governance processes &
setting policies

Recommendation 6: Enabling Competencies and Skills

Enabling Competencies and Skills

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Recommendation 6

Add new application material to Subsection 113 (PC & DC) to highlight the importance of professional or “soft” skills and provide examples of the emergent technical skills needed in the digital age

Technical competencies



Professional skills

Enabling competencies and skills

6

Cross refer to IESs from Subsection 113

“IES 3 prescribes the Professional skills needed by PAs, including intellectual, interpersonal...”

Embed IES-aligned wording into Code

“Professional skills needed by PAs include reasoning, critical analysis, innovative thinking, communication, collaboration...”

Hybrid approach IES wording + cross refer

Application material plus Define professional competence based on and reference to IESs

Recommendation 7: Auditor Independence

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Recommendation 7

Auditor Independence

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Technology tools used in an audit



Technology applications sold to audit clients



Provision of technology related NAS



Modernization of Code's terms and concepts



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New tech tools and related NAS

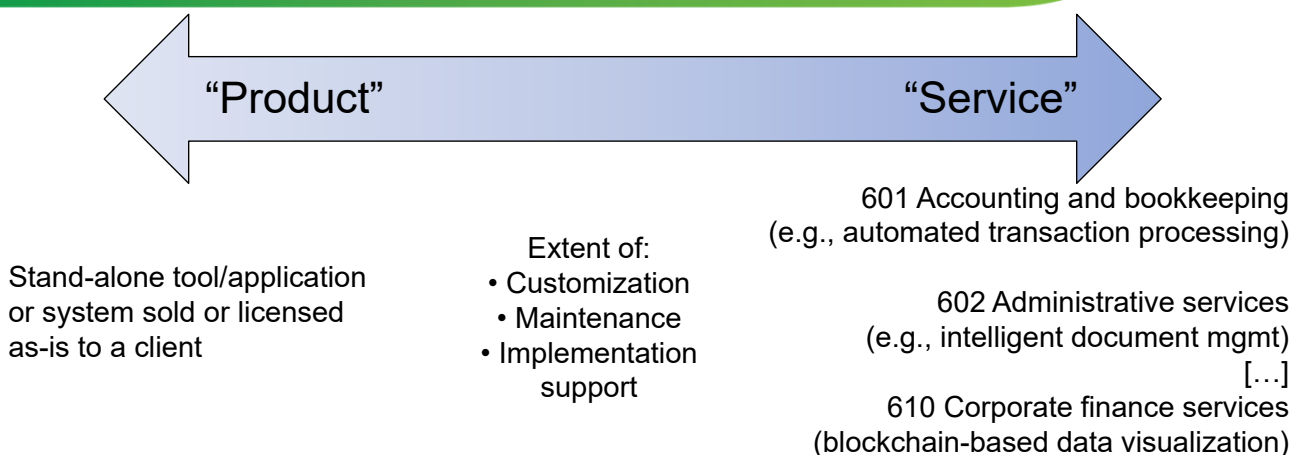
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Examples of emerging tools and NAS engagements

- Hosting, storing or synchronizing client data
- Data analysis including data mining, data visualization and data integration
- Intelligent agents for risk assessment, forensic services, and others
- Platforms for presenting and promulgating content
- Blockchain-based business applications, including e-commerce
- Cybersecurity systems penetration testing
- Assessing business continuity or disaster recovery provisions

Product-to-service continuum

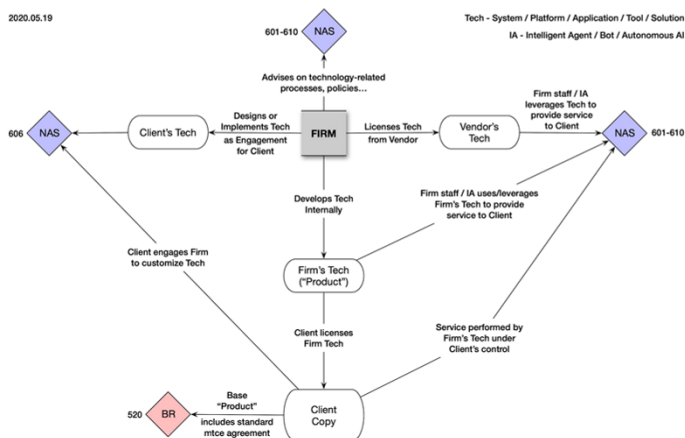
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Preliminary TF views

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Appendix A Product-Service Offerings and Relevant Code Sections (Draft "Decision Model")



Preliminary TF views

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- **Services that fall in subsections of 600** – adjust wording to ensure that their inclusion is apparent;
- **New NAS engagement types** (not captured in 601 to 610) – develop new subsection(s) based on the nature or objective of the service (not based on specific technology);
- **Licensing or sale of a tool/system developed by a firm** –
 - clarify section 520 to recognize the business relationship;
 - client-specific customization work is a 606 engagement

Preliminary TF views

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- Evaluate independence threats from the sale or licensing of a product based on:
 - Threats based on the nature of the business relationship that is formed through the arrangement; and
 - Threats based on the underlying service or output performed by the product, *making the assumption that it is the provision of a service that is relevant, not whether that service is performed by a technology product, by firm staff, or a combination thereof.*

Representatives are invited to comment on the TF's views.

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Terminology - "Office"

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- Remove reference to office?
- Amend definition of office – geographical office is not the primary or only consideration

“Office - A distinct sub-group, whether organized on geographical or practice lines, constituted by formal organization or informal practice.”
- Add application material

Representatives are invited to comment on the TF's views.

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Terminology – “Routine and Mechanical”

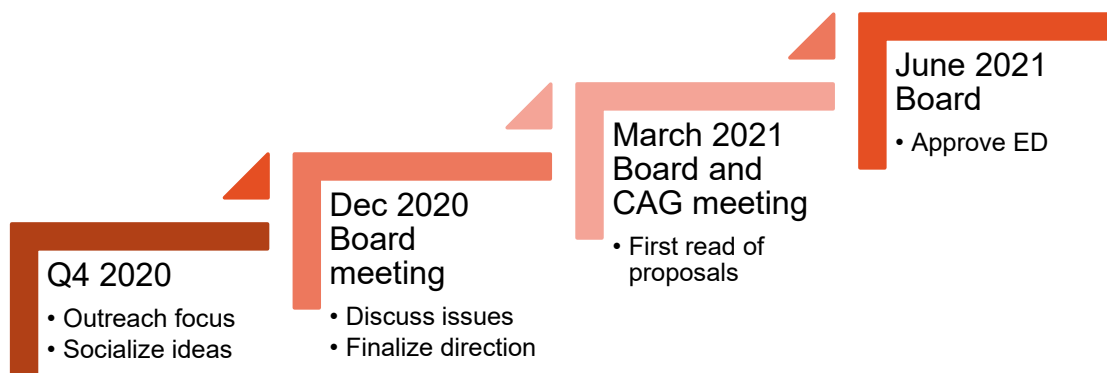


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- Routine and mechanical relates to lack of professional judgment/technical skill required
- Automated computer systems are “mechanical” and could be seen as routine
- Concern that AI with built-in professional judgment could be mistaken for routine and mechanical
- TTF is working with NAS TF to clarify how to determine if automated services are routine and mechanical

Representatives are invited to comment on the TF’s views.

Next Steps





The Ethics Board

www.ethicsboard.org