

Meeting: IESBA CAG
Meeting Location: Virtual
Meeting Date: September 1, 2020

Agenda Item

C

Technology

Objectives of Agenda Item

1. To:
 - (a) Report back on the March 2020 IESBA CAG discussion; and
 - (b) Discuss key issues identified by the Task Force and obtain Representatives' input on the Task Force's preliminary views in addressing the recommendations outlined in the approved [project proposal](#).

Project Status and Timeline

Outline and Scope of the Technology Project Proposal

2. In March 2020, pursuant to the December 2019 final report of the Technology Working Group ([Phase 1 Final Report](#)), the IESBA approved the Project Proposal to develop enhancements to the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code). The objective of the project is to enhance the Code's provisions in response to the transformative effects of major trends and developments in technology in order to maintain the Code's robustness and relevance as a cornerstone of public trust in the global accountancy profession. The project timetable anticipates a June 2021 approval date for a Technology Exposure Draft (ED).

Report Back on March 2020 CAG Discussions

3. At the March 2020 CAG meeting, Representatives expressed strong support for the Project Proposal (key recommendations are summarized in the Appendix). Below are extracts from the draft minutes of the March 2020 CAG meeting and indicative responses.

Matters Raised	Task Force/IESBA Response
PROJECT TIMELINE	
<p>Mr. Hirai asked how the Phase 2 information gathering work would impact the project timeline and whether the IESBA could expedite the proposed project timeline.</p> <p>Mr. Kashiwagi noted that the PIOB views the Technology project as being of high</p>	<p>During the meeting, Mr. Friedrich noted that ongoing information gathering, notably with respect to other technology areas such as blockchain and cybersecurity, is planned to continue in parallel with the project so as to inform the drafting of any principles-based amendments to the Code within the project</p>

<p>importance. For continuity, he asked whether members of the Task Force would join the Phase 2 fact finding work stream. He also wondered about the potential to accelerate the project timeline and suggested that consultation should include engaging with stakeholders outside of Europe and North America.</p>	<p>timeline. He also highlighted the number of significant IESBA projects currently underway, resulting in an already relatively aggressive timeline, given the breadth and depth of the project proposal recommendations.</p> <p>The Task Force continues to plan and progress wide ranging consultation.</p>
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USE CASES

<p>Mr. Sobel described scenarios where an audit firm and a client partner to co-develop an artificial intelligence (AI) tool. The partnership could result in various scenarios such as: the client uses the AI tool; a reduction of audit fee as impetus for the development of the joint AI product; the firm uses the AI tool on audits of other clients; the firm selling or licensing the AI tool to the client. Mr. Sobel wondered about the impact of these scenarios on the firm's independence.</p> <p>Mr. Dalkin highlighted the need for close collaboration with the IAASB, given the increased reliance on new technology-based auditing tools and on electronic data as part of gathering audit evidence. He described a scenario of a fraud detection system designed by a firm which is then acquired by the audit client. He noted that a number of independence questions would arise if the system were subsequently found to contain errors. He also encouraged the Task Force to consider ethical matters related to audit firms holding client data and/or providing hosting services, especially if there is a subsequent breach of security.</p> <p>Mr. Pavas noted that as firms have ever-increasing access to a client's full range of data, the question of where to draw the line becomes increasingly challenging – for example, issues around data collection (e.g., what data, from where, and how much); determining what data is relevant and what is not; and what is personal vs. commercial vs. proprietary.</p>	<p>During the meeting, Mr. Friedrich acknowledged that these are the sort of business relationships and use cases that the Task Force will be exploring. Agenda Item C-1 in connection with Recommendation 7 provides an overview of the Task Force's preliminary recommendations.</p> <p>With respect to collaboration with the IESBA, an IAASB correspondent member participates on the Task Force and the Task Force continues to explore matters with the IAASB Working Group under the established coordination framework between the two Boards.</p> <p>(The Task Force is also exploring ways to collaborate with the IFAC International Panel on Accountancy Education (IPAE) on crosscutting issues between technology and accountancy education.)</p> <p>With respect to the comment about firms having increasing access to client data, Mr. Friedrich noted during the meeting that the Task Force had thought about the matter under the data governance considerations within the project but had not developed responses yet. He added that the question needed to be examined from both the firm's and the client's perspectives.</p> <p>The Task Force has explored use cases related to firms hosting of client's data as described in Agenda Item C-1 in connection with Recommendation 7. In addition, matters related to governance considerations are considered under Recommendation 1 and</p>
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	confidentiality matters are considered under Recommendation 5.
OTHER MATTERS	
Mr. Thompson cautioned the Task Force not to be too specific and granular when developing revisions to the Code, so as to future proof the Code as technology is changing so rapidly,	During the meeting Mr. Friedrich agreed that a principles-based approach is the only way the Code can address the impact of multiple disruptive technologies on ethical behavior in an enduring manner. Indicative drafting in Agenda Item C-1 is intended to follow a principles based approach.

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4. The IESBA provided directional input on Recommendations 2 and 7 at the June 2020 meeting. The IESBA will consider at its September 2020 meeting the Task Force’s preliminary views on the seven recommendations outlined in the project proposal.

Matters for CAG Consideration

5. Representatives are asked to:
 - (a) Note the report back above; and
 - (b) Consider the matters for consideration in **Agenda Item C-1** and provide directional input on the Task Force’s preliminary views in addressing the recommendations.

Material Presented

Agenda Item C-1 Technology – Issues and Task Force Preliminary Views

APPENDIX: Recommendations outlined in the approved Project Proposal – Enhancing the Code in an Evolving Digital Age

- A. BUILDING TRUST – THE CRITICAL ROLE OF ETHICS AND PROFESSIONAL JUDGMENT
1. Within the scope of PAs' professional duties and responsibilities, consider adding new application material in Part 1 to more clearly highlight a broader societal role for PAs in promoting ethical behavior as a critical, consistent foundation for businesses, firms and other organizations, particularly when developing and using technology.
- B. COMPLEXITY OF THE PROFESSIONAL ENVIRONMENT
2. Consider revising the Code to more effectively deal with the threats created by the complexity of the professional environment in which PAs perform their professional activities. For example, consideration will be given to the following:
 - Revising the description of “intimidation threat” in Section 120¹ to capture a variation of the intimidation threat created by the complexity of certain technology applications or compliance rules.
 - Highlighting the issue of “complexity” under Section 120, in a manner similar to the approach the IESBA has taken in adding application material on bias and organizational culture in the [Role and Mindset Exposure Draft](#) (ED).
 - Modifying the lead-in language to the paragraph² of the Code that introduces the five categories of threat so it would read less definitively. Doing so would provide some flexibility as to how PAs can identify and address a threat such as complexity without necessarily having to shoehorn it into one of the five categories of threat.
 - In Sections 200³ and 300,⁴ providing examples of threats, as well as the work and operating environments of employing organizations and firms and the operating environment of clients, that might impact the evaluation of the level of a threat. These examples would focus specifically on technology and the complexity of work environments.
 - Reviewing the Code to expand references to individuals to include machines and intelligent agents as appropriate, for example, in the description of “self-review threat” in Section 120.
- C. SUITABILITY OF THE FUNDAMENTAL PRINCIPLES FOR THE DIGITAL AGE
3. Consider revising Subsection 113⁵ by expanding a PA's responsibility to be transparent, which is not currently expressly stated in the Code. This would take into consideration that there may be circumstances that impact the extent of transparency

¹ Section 120, *The Conceptual Framework*

² Paragraph 120.6 A3

³ Section 200, *Applying the Conceptual Framework – Professional Accountants in Business*

⁴ Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

⁵ Subsection 113, *Professional Competence and Due Care*

that may be appropriate (e.g., in an audit, the type and timing of audit procedures, and in business, proprietary commercial information).

4. Consider strengthening the concept of accountability in the Code by, for example:
 - Including new material in Subsection 111⁶ on a PA's willingness to accept responsibility. This would need to take into account whether this aspect of accountability is already covered sufficiently in the proposed new material in Subsection 111 under the Role and Mindset project.
 - More clearly explaining the concept of accountability in Subsection 113 in light of the 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 220.⁷ Consideration will need to be given to how best to progress these changes in light of the Role and Mindset project.
5. Consider revising Subsection 114⁸ 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.

D. ENABLING COMPETENCIES AND SKILLS

6. Consider adding new application material to Subsection 113 to highlight the importance of professional or "soft" skills, and provide examples of the emergent technical skills needed in the digital age. In this regard, consideration will be given to the International Education Standards (IES) and related guidance documents prepared by the former International Accounting Education Standards Board (IAESB), especially on professional values, ethics and attitudes, and Information and Communications Technology.

E. AUDITOR INDEPENDENCE

7. With a view to strengthening the IIS in Part 4A:
 - Consider whether certain provisions in Part 4A, such as those in Section 520,⁹ should be revised to address the threats to independence created by the sale or licensing of technology applications to audit clients and the use of an audit client's technology tool in the delivery of non-assurance services (NAS) to another entity.
 - Revise Section 600,¹⁰ particularly Subsection 606,¹¹ with respect to the provision of technology-related NAS. Consideration will need to be given to the

⁶ Subsection 111, *Integrity*

⁷ Section 220, *Preparation and Presentation of Information*

⁸ Subsection 114, *Confidentiality*

⁹ Section 520, *Business Relationships*

¹⁰ Section 600, *Provision of Non-assurance Services to an Audit Client*

¹¹ Subsection 606, *Information Technology Systems Services*

revised principles addressing the permissibility of NAS and related provisions when finalized under the [NAS project](#), as well as broader relevant feedback received on the NAS Exposure Draft.

- In relation to the concept of an “office,” consider whether Section 510¹² should be revised to better capture the threats to independence created by the use of modern communication technologies by firms. Such technologies potentially challenge the notion of an engagement partner’s physical office location being a determining factor in whether that engagement partner or the audit engagement can be unduly influenced by another partner in that same office.

¹² Section 510, *Financial Interests*