Objectives of Agenda Item

1. To:
   
   (a) Receive a report back on the September 2020 IESBA CAG discussion and technology-related activities since September 2020;
   
   (b) Receive an update on the proposed way forward for the Technology project; and
   
   (c) Discuss and provide views on the proposed scope and focus of activities of a new Technology Working Group (TWG) which will:

   - Develop, or facilitate the development of, non-authoritative guidance material (NAM) on technology-related topics; and
   - Identify and assess the impact of technology on the behavior of professional accountants and simultaneously inform the development of the technology-related Exposure Draft (ED), where appropriate.

   (d) Receive a report of the key messages heard in response to two technology surveys undertaken in Q4 2020.

Project History

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 originally anticipated a June 2021 approval date for a technology-related ED.

3. At the September 2020 CAG meeting, Representatives provided directional input on the Task Force’s preliminary views about how the IESBA might address the seven recommendations outlined in the approved project proposal, including the nature of the proposed changes that might form part of the Technology ED.
Report Back on September 2020 CAG Discussions

4. At the September 2020 CAG meeting, Representatives expressed strong support for the Project direction. Below are relevant extracts from the draft minutes of the September 2020 CAG meeting and indicative responses.

<table>
<thead>
<tr>
<th>Matters Raised</th>
<th>Task Force/IESBA Response</th>
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<tbody>
<tr>
<td><strong>COMPLEXITY</strong></td>
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<tr>
<td>Mr. Norberg commented on the helpful discussion of “complicated versus complexity”. He expressed his preference for Options 2-1 (modifying the lead-in to paragraph 120.6 A3 to recognize the potential for additional threat categories) and 2-4 (highlighting complexity as a pervasive factor when applying the conceptual framework). Mr. Hansen noted his preference for Options 2-1 and 2-4. Mr. Dalkin expressed concern that users might not be sufficiently guided if Option 4 were implemented alone. CAG representatives encouraged the Task Force to reach out to stakeholders for further thoughts on the options. Mr. Norberg emphasized that just changing the Code would not be enough in itself to change behavior.</td>
<td>Points accepted. The preliminary Task Force views put forward to the CAG benefited from targeted stakeholder input, including from national standard setters, firms, academics and accounting educators and others. In October 2020, the Task Force issued a survey exploring Technology and complexity in the professional environment to seek broader stakeholder views on the options explored. The Task Force will brief the CAG on the results of the survey at its March 2021 meeting. A new TWG has been established to assess the impact of technology on the behavior of professional accountants. The CAG’s input will be sought on the Terms of Reference of the TWG at the meeting.</td>
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<tr>
<td><strong>OTHER MATTERS</strong></td>
<td></td>
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<tr>
<td>A number of CAG representatives encouraged the development of non-authoritative guidance to be nimble, given the breadth of the project and the rapid pace of technology developments. Messrs. Sobel and Thompson expressed support for principles-based drafting for proposed Code changes and additions. Mr. Hansen expressed support for addressing the issue of data privacy as well as clarification of a “routine and mechanical” service.</td>
<td>Points accepted. The new TWG has been established to accelerate the development of non-authoritative material. The CAG’s input will be sought on the Terms of Reference of the TWG at the meeting. The IESBA considered the Task Force’s preliminary draft of the Technology ED which reflected a principles-based drafting approach (see Agenda Item 5B of the IESBA December 2020 meeting materials). The Task Force sought stakeholder feedback on the key determining factors as to when an automated task is considered to be “routine or mechanical” in a second survey exploring the</td>
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</tbody>
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Matters Raised | Task Force/IESBA Response
---|---
impact of technology on auditor independence. The results of the survey will be presented to the CAG during the March 2021 meeting.

Recap of the IESBA’s 2020 Technology-related Activities

5. Throughout 2020 and subsequent to the Phase 1 report\(^1\), the Task Force has continued to perform some desk research related to various technology topics, including blockchain, cybersecurity, etc. During ongoing outreach, stakeholders provided feedback related to a broad range of technology matters (e.g., not limited to AI and data analytics), and have indicated their support for maintaining a principles-based approach rather than an approach that addresses specific types of technology.

6. During the fourth quarter of 2020, the Task Force prioritized broader outreach, operationalized through two surveys seeking stakeholder feedback on two specific recommendations — tied to two of the recommendations from its approved project proposal (see Appendix for further detail):
   - Technology and complexity in the professional environment (Recommendation 2)
   - The impact of technology on auditor independence (Recommendation 7)

   The surveys closed on November 25, 2020.

7. At the December 2020 IESBA meeting, the IESBA considered:
   (a) The Task Force’s recommendations and progressed its deliberations on proposed approaches to advance the seven identified recommendations within the approved project proposal;
   (b) A "strawman draft" with potential revisions to the Code; and
   (c) A high-level overview of the responses to the October 2020 technology surveys which sought stakeholder input on topics addressed by two of the recommendations, as noted in paragraph 6, above.

8. In addition, as noted above, the IESBA in December 2020 established a new TWG to focus on the development of NAM to meet market stakeholder needs, as well as accelerate fact finding and information gathering into technologies and their potential impact on ethical decision-making.

9. The creation of the TWG to work alongside the Task Force allows the work of both groups to inform each other to further test the developing principles against technology-related matters such as blockchain, cyber-crime and cyber-security, Internet of Things, and data governance. Furthermore, the TWG will both develop and facilitate the development of NAM to meet market stakeholder needs sooner rather than later.

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\(^1\) The Phase 1 report focused on research related to artificial intelligence (AI) and big data and data analytics.
10. The compositions of the Task Force and Working Group are:

<table>
<thead>
<tr>
<th>Technology Task Force</th>
<th>Technology Working Group</th>
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</thead>
<tbody>
<tr>
<td>Rich Huesken, Chair, IESBA Member</td>
<td>Brian Friedrich, Chair, IESBA Member</td>
</tr>
<tr>
<td>Brian Friedrich, IESBA Member</td>
<td>Vania Borgerth, IESBA Member</td>
</tr>
<tr>
<td>Hiro Fukukawa, IESBA Member</td>
<td>Sundeep Takwani, IESBA Technical Advisor</td>
</tr>
<tr>
<td>James Barbour, IESBA Technical Advisor</td>
<td>David Clark, IESBA Technical Advisor</td>
</tr>
<tr>
<td>Greg Driscoll, IESBA Technical Advisor</td>
<td></td>
</tr>
<tr>
<td><em>Met five times from December 2020 to date</em></td>
<td><em>Met three times from December 2020 to date</em></td>
</tr>
<tr>
<td>IAASB Correspondent member</td>
<td></td>
</tr>
<tr>
<td>Johanna Field, IAASB Technical Advisor</td>
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</tbody>
</table>

11. Efficient coordination and regular interaction between the TWG and the Task Force will be critical given that both workstreams will rely on largely the same information sources (e.g., findings from information gathering, survey results, coordination with industry experts and other stakeholders, etc.) for separate but complementary purposes. Such coordination will mitigate repeating conversations both internally and with stakeholders, provide relevant two-way feedback, reduce duplication of effort, and ultimately enhance the efficiency and outputs of both groups.

12. The Task Force has undertaken a more detailed analysis of the survey results subsequent to the December meeting and the key messages arising from these surveys are outlined in Agenda Item D-1.

13. At the March 2021 meeting, the IESBA will receive a report back on technology related activities since December 2020 and discuss and provide views on the:
   - Planning Committee’s recommendation to defer the approval of a technology related ED to December 2021, i.e., a delay of six months, which takes into account the broader technology environment;
   - Proposed scope and focus of activities of the newly established Technology Working Group;
   - Key messages heard in response to the two technology surveys undertaken in Q4 2020.

**Matters for CAG Consideration**

14. Representatives are asked to:
   (a) Note the report back above and the proposed next steps for the project;
   (b) Provide thoughts on the key messages received in response to the two technology surveys; and
   (c) Provide thoughts on the proposed scope and focus of the TWG’s activities as outlined in its draft Terms of Reference in Agenda Item D-2.

**Material Presented**

<table>
<thead>
<tr>
<th>Agenda Item D-1</th>
<th>Technology – Survey results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agenda Item D-2</td>
<td>TWG – Proposed Terms of Reference</td>
</tr>
</tbody>
</table>
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 120 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 paragraph 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 200 and 300, 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 113 by expanding a PA’s responsibility to be transparent, which is not currently expressly stated in the Code. This would take into

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2 Section 120, The Conceptual Framework
3 Paragraph 120.6 A3
4 Section 200, Applying the Conceptual Framework – Professional Accountants in Business
5 Section 300, Applying the Conceptual Framework – Professional Accountants in Public Practice
6 Subsection 113, Professional Competence and Due Care
consideration 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).

4. Consider strengthening the concept of accountability in the Code by, for example:
   - Including new material in Subsection 1117 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 220.8 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 1149 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 520.10 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.

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7 Subsection 111, Integrity
8 Section 220, Preparation and Presentation of Information
9 Subsection 114, Confidentiality
10 Section 520, Business Relationships
• Revise Section 600,\textsuperscript{11} particularly Subsection 606,\textsuperscript{12} with respect to the provision of technology-related NAS. Consideration will need to be given to the 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 510\textsuperscript{13} 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.

\textsuperscript{11} Section 600, *Provision of Non-assurance Services to an Audit Client*

\textsuperscript{12} Subsection 606, *Information Technology Systems Services*

\textsuperscript{13} Section 510, *Financial Interests*