

Meeting: IESBA CAG
Meeting Location: New York
Meeting Date: September 9, 2019

Agenda Item

E

Technology

Objectives of Agenda Item

1. To receive the preliminary report from the Technology Working Group (TWG)¹ based on its information gathering and analysis to date under Phase 1 of the IESBA's technology initiative.
2. To consider specific matters identified by the TWG and provide feedback to inform the TWG's work in Q4 2019 and its Phase 1 Final Report due in December 2019.

Background and Status of Initiative

3. In December 2018, the IESBA approved the TWG's [Terms of Reference](#). The focus of the TWG is on the ethical behavior of both professional accountants in business (PAIBs) and professional accountants in public practice (PAPPs) when using or encountering technologies in their professional activities. The impact of technology will be addressed in the context of professional accountants' (PA) compliance with the fundamental principles and independence standards.
4. During Phase 1, the TWG has been carrying out information gathering activities in relation to two distinct but related technology areas: artificial intelligence, including robotic process automation, and data analytics/big data.
5. In addition to conducting "desk research" (i.e., review of publicly available reports, articles and other relevant material), the TWG has been engaging with a broad range of stakeholders both formally and informally to hear views, share knowledge, identify issues and ascertain if best practices have already been developed and are in use. Since the last CAG meeting in March 2019, members of the TWG met with stakeholders in Paris, Brussels and Toronto. See Appendix for a list of the outreach sessions conducted to date.
6. The TWG will present its Phase 1 Final Report to the IESBA in December 2019.

¹ TWG Members:

- Patricia Mulvaney, Chair, IESBA Member
- Gregory Driscoll, IESBA Technical Advisor
- Brian Friedrich, IESBA Member
- Hironori Fukukawa, IESBA Member
- Myriam Madden, IESBA Member
- Melissa Bonsall, IAASB Technical Advisor (IAASB Correspondent Member)

Report Back on March 2019 CAG Discussion

7. Below are extracts from the draft minutes of the March 2019 CAG meeting² and an indication of how the Task Force and/or IESBA has responded to the CAG's comments.

Matters Raised	Task Force/IESBA Response
SCOPE AND APPROACH	
<ul style="list-style-type: none"> Mr. Dalkin pointed out the risk of audit teams taking up management responsibilities when using new products to deliver their services. He acknowledged that this issue may be better addressed by the Non-assurance Services (NAS) Task Force. 	<p>Point taken into account.</p> <p>At the meeting, Ms. Mulvaney noted that there may be some overlap between the two IESBA teams' work on this issue and that the TWG will consider this point further in due course.</p>
<ul style="list-style-type: none"> Mr. van der Ende noted the importance of understanding data quality, not only because basic data are so critical as an input but also because management can make choices with the data. He therefore queried if the Code should provide guidance to PAs on evaluating the accuracy and appropriateness of source data. 	<p>Point taken into account.</p> <p>In its preliminary report, the TWG is suggesting that IESBA take into consideration existing data governance principles and privacy laws as part of its review of the language and terminology used in the fundamental principles of confidentiality. The TWG is also continuing to reflect further on PAs' responsibilities with respect to data quality and the related implications for the Code.</p>
<ul style="list-style-type: none"> Mr. James also made observations about the increase of 'fake news' in the media and the doctoring of online pictures, and therefore the potential for a new dimension of fraud. He asked how PAs should prepare themselves in discerning false information generated by technology and in ensuring data integrity. 	<p>Point taken into account.</p> <p>At the meeting, Ms. Mulvaney noted that the Role and Mindset Task Force is proposing a concept of "questioning mindset." She added that whilst PAs do not need to be data scientists, they need to have the competence to ask the right questions and marshal the appropriate support. Ms. Mulvaney also pointed out that this issue relates to the fundamental principle of professional competence and due care.</p>
<ul style="list-style-type: none"> Mr. Sobel was pleased to see that the scope of the initiative covers both PAPPs and PAIBs. He suggested that as different technologies are developed for audit process and for accounting and transactional processes, some consideration might be given to whether 	<p>Point taken into account.</p> <p>As part of its information gathering, the TWG has reviewed material that covers a broad range of professional activities. In addition, the membership of the TWG comprises PAIBs, PAPPs and a public member.</p>

² The draft March 2019 minutes will be approved at the September 2019 IESBA CAG meeting.

Matters Raised	Task Force/IESBA Response
<p>there are any differences in the ethical considerations.</p> <ul style="list-style-type: none"> Mr. Sobel also observed that there might be bias in the evaluation of technologies by those who fear their jobs are at risk, including auditing roles being replaced by technology 	
<ul style="list-style-type: none"> Ms. Zietsman agreed with the TWG's approach as set out its Terms of Reference. She also took the view that the initiative cannot be completed by simply resolving a fixed number of issues. Instead, she agreed with the approach of blending the technology elements into ongoing projects, as done with the foundational aspects of the Role and Mindset proposals. She also noted that the IESBA can be nimble by issuing non-authoritative guidance as opposed to looking at making ongoing revisions to the Code. 	<p>Point taken into account.</p> <p>The Exposure Draft, Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants (Role and Mindset ED) has included some enhancements that reflect the impact of technology.</p> <p>In its preliminary report, the TWG has recommended the IESBA to consider enhancement to the Code, particularly with respect to the fundamental principles. The TWG is also recommending the development of a number of non-authoritative materials for the Board's consideration.</p>
<ul style="list-style-type: none"> Ms. Borgerth preferred to view technology as an opportunity to provide more reliable information in a more expedient way. Mr. Fortin also noted that technology can be disruptive in a good sense by unlocking issues that have been hidden for a long time. 	<p>Point taken into account.</p> <p>At the meeting, Ms. Mulvaney pointed out that the TWG will also consider opportunities technology is presenting to the profession.</p>
<ul style="list-style-type: none"> Mr. van der Ende asked if the initiative's scope includes the trend in seeking assurance beyond financial information to encompass systems, processes and other matters involving technology, such as blockchain. 	<p>Point taken into account.</p> <p>At the meeting, Mr. Koktvedgaard reminded CAG Representatives that the International Auditing and Assurance Standards Board (IAASB) also has a separate work stream on technology which is better placed to address these issues.</p>
<ul style="list-style-type: none"> Mr. Dalkin recommended that the TWG also consider reaching out to stakeholders in the public sector as they might have some unique views to offer on this topic. Ms. Singh noted that the CFA Institute has made similar considerations within the investor community and is currently 	<p>Points taken into account.</p> <p>The IESBA will continue to seek input from a broad range of stakeholders, including those from the public sector and investor groups during Phase 1 and any subsequent phase.</p>

Matters Raised	Task Force/IESBA Response
<p>conducting a similar consultation with its constituents on the impact of technology on compliance with the Institute's Code of Ethics and Standards of Professional Conduct. In this regard, she noted that the CFA Institute would be pleased to share the results of its work with the IESBA.</p>	
EMERGING THEMES OBSERVED BY THE TWG	
<ul style="list-style-type: none"> • Dr. Lawal suggested that there should be more emphasis on professional competence, new skill sets and continuing professional development and the PA's ability to lead with regard to technology developments. He felt that these would be critical success factors. Both Mr. Fortin and Ms. Robert echoed the importance of professional competence in the digital age. • Ms. Robert suggested that developing a growth mindset and the responsibility to advise clients on risks to and benefits of using AI fall within the firms' responsibilities. 	<p>Points taken into account.</p> <p>The TWG's preliminary report includes a discussion on PA's competence and skills expected in the digital age, and the sufficiency of the fundamental principle of professional competence and due care. The preliminary report also includes the TWG's observations on stakeholders' views about having the right mindset and a growth mindset.</p>
<ul style="list-style-type: none"> • Ms. Manabat noted that standard setting may be lagging behind how large firms are doing business as the latter have been developing their technologies over a period of time to streamline their work processes and increase their productivity, including through use of shared service centers. 	<p>Point taken into account.</p> <p>At the meeting, Ms. Mulvaney pointed out that whilst AI technologies are available, many organizations have yet to fully utilize their capabilities due to data not being properly organized. The TWG will be carrying out its work irrespective of the readiness of organizations. Ms. Borgerth also encouraged the TWG not to be unduly concerned with the fact that its work is behind technology developments.</p>
<ul style="list-style-type: none"> • Mr. James noted that regulators have been struggling with the question of whether to allow technology to develop before establishing the necessary regulatory boundaries, as investors and other stakeholders have been concerned about stifling innovation if regulation comes too early. He wondered if standard setters should have a different threshold than 	<p>Point taken into consideration.</p> <p>At the meeting, Ms. Mulvaney acknowledged the challenge, noting that the IESBA is focused on the continuing relevance of the fundamental principles and whether the Code remains fit for purpose in this dynamic environment.</p>

Matters Raised	Task Force/IESBA Response
regulators, establishing the appropriate standards without stifling innovation.	
<ul style="list-style-type: none"> Ms. Robert also noted that fairness and transparency are important concepts linked to ethical behavior and that trust is becoming increasingly important with technology disruptions. 	<p>Point taken into account.</p> <p>The TWG’s preliminary report includes a discussion on the concepts of fairness and transparency in the context of the fundamental principles.</p>
<ul style="list-style-type: none"> Mr. Fortin queried whether PAs should play a role in upholding fairness and transparency or promoting the benefits of technology. In response, Mr. Fortin also pointed out that technology can be both a threat and a tool to protect confidentiality. 	<p>Point taken into account.</p> <p>At the meeting, Ms. Mulvaney agreed that trust in artificial intelligence (AI) is an important issue and that the TWG will continue to explore this aspect</p>

Action Requested

8. CAG Representatives are asked to provide feedback to the following questions:
 - (a) Does the preliminary report clearly explain the TWG’s findings and recommendations?
 - (b) Are there any other substantive matters that should be included or require further discussion in the preliminary report?
 - (c) Are there any other topics for non-authoritative material in addition to those highlighted in the preliminary report that should be considered by the TWG?
 - (d) Are there any other general or specific comments relating to the preliminary report?

Next Steps

9. As mentioned in the preliminary report, the TWG will meet in Q4 to discuss any outstanding comments and issues and will finalize its Phase 1 report, taking into consideration feedback received from the CAG and the IESBA during their September 2019 meetings, as well as any feedback from the IFAC PAIB Committee. The final report will include recommendations to the IESBA on how to further progress the technology work stream beyond this phase. The TWG will present its final report for Phase 1 at the December 2019 Board meeting.
10. Subject to IESBA members’ views, the TWG aims to release a staff publication in Q4 2019 to inform stakeholders of developments pertaining to this work stream, including the TWG’s remit, fact finding activities and key observations to date. The paper will also draw stakeholders’ attention to the upcoming Phase 1 Final Report.

Material Presented

Agenda Item E1 Technology Initiative Phase 1 Preliminary Report – September 2019

Appendix

List of Stakeholders and Outreach Events Conducted to Date

Stakeholders/Events	MB	PAIBs	Firms	NSS	Reg	Academics	Vendor	Others	Region	Date
Association of Chartered Certified Accountants (ACCA)	•								Europe	Jan 2019
Chartered Institute of Management Accountants (CIMA)	•	•							Global	Jan 2019
Inflo (audit and accounting software vendor)							•		Europe	Jan 2019
Institute of Business Ethics (IBE)								•	Europe	Jan 2019
Institute of Chartered Accountants in England and Wales (ICAEW)	•								Europe	Jan 2019
Chartered Professional Accountants of Canada (CPA Canada)	•			•					North America	Jan 2019
University of Waterloo Centre for Accounting Ethics– 4 th Ethics Symposium	•		•			•			North America	Apr 2019
IESBA National Standard Settlers (NSS) 2019 Meeting				•					Global	May 2019
Accountancy Europe (AE) ³	•								Europe	May 2019

³ Representative body of European IFAC member bodies

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 IESBA CAG Meeting (September 2019)

Stakeholders/Events	MB	PAIBs	Firms	NSS	Reg	Academics	Vendor	Others	Region	Date
European Commission (EC)					•				Europe	May 2019
Organization for Economic Co-operation and Development (OECD)								•	Global	May 2019
Luncheon with Paris-based Firms			•						Europe	May 2019
Cercle d’Ethique des Affaires (CEA)								•	Europe	May 2019
CPA Canada – Foresight Meeting	•		•		•	•			North America	Jun 2019