Meeting:	IESBA	**Agenda Item**
Meeting Location:	Virtual	**4**
Meeting Date:	March 16, 2021	

Technology

Objectives

1. To:

    (a) Consider the Planning Committee's recommendation to defer the approval of a technology-related Exposure Draft (ED), which takes into account the broader technology environment;

    (b) Consider the proposed scope and focus of activities of a new Technology Working Group (TWG) which will:

    (i) Develop, or facilitate the development of, non-authoritative guidance material (NAM) on technology-related topics; and

    (ii) Identify and assess the impact of technology on the behavior of professional accountants and simultaneously inform the development of the ED, where appropriate; and

    (c) Receive a report of and provide views on the key messages heard in response to the two technology surveys undertaken in Q4 2020.

Recap of the IESBA's 2020 Technology-related Activities

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 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, excluding any potential revisions related to recommendation 7 on auditor independence; and

    (c) A high-level overview of the responses to the October 2020 technology surveys seeking stakeholder feedback on two specific Task Force project topics – tied to two of the recommendations from the 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)

4. 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 4-A**. IESBA members are asked to provide views on the key messages identified.

5. In addition, in December 2020 the IESBA established the 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.

6. 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 (IoT), and data governance. Furthermore, the TWG will both develop and facilitate the development of NAM to meet market stakeholder needs sooner rather than later.

7. The compositions of the Task Force and Working Group are:

Technology Task Force	Technology Working Group
Rich Huesken, Chair, IESBA Member Brian Friedrich, IESBA Member Hiro Fukukawa, IESBA Member James Barbour, IESBA Technical Advisor Greg Driscoll, IESBA Technical Advisor	Brian Friedrich, Chair, IESBA Member Vania Borgerth, IESBA Member Sundeep Takwani, IESBA Technical Advisor David Clark, IESBA Technical Advisor
Met five times from December 2020 to date	*Met three times from December 2020 to date*
IAASB Correspondent member Johanna Field, IAASB Technical Advisor	

Planned Activities Going Forward

8. In early 2021, the Task Force paused to reflect, in conjunction with the TWG and the Planning Committee, on progress made to date and to consider the next steps in light of increased burdens being felt by stakeholders as a result of the COVID-19 pandemic. In this environment, stakeholders have increasingly raised concern at the pace of change to the Code and the resulting impact on the ability of jurisdictions to adopt and implement the changes.

9. Further, the pandemic has significantly accelerated the adoption of some newer forms of technology with entities across the world driven by business necessity to embrace such technology to be able to continue operating under strict lock down and travel restrictions. Professional accountants in particular have had to adjust working methods and embrace newer technology on an accelerated journey.

10. In addition to considering the accelerated changes brought about by the pandemic, the Task Force has continued to perform some desk research related to the broader technology environment, including specific topics such as blockchain, cybersecurity, etc. subsequent to the Phase 1 report.[1]

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[1] The Phase 1 report focused on research related to artificial intelligence (AI) and big data and data analytics.

11. During ongoing outreach, stakeholders provided feedback related to a broad range of technology matters (e.g., but not limited to AI and data analytics), and have indicated their support for maintaining a principles-based approach to developing enhancements to the Code rather than an approach that addresses specific types of technology.

12. In developing the "strawman draft" of potential revisions to the Code presented at the December 2020 meeting, the Task Force has already considered the impact of a broad range of technology[2] researched to date. The Task Force is committed to drafting the proposed changes to the Code for the forthcoming ED in a principles-based manner so that the revisions to the Code remain relevant and fit for purpose as technology continues to evolve.

13. The Task Force and the TWG consulted with the Planning Committee on how best to advance the Board's deliberations on the seven recommendations from the approved project proposal (see Appendix for further detail), having regard to the need for close coordination between the Task Force and the TWG. The discussion emphasized the importance of continuous sharing of ideas and information between the Task Force and the TWG to ensure that:

- Ongoing fact-finding and information gathering by the TWG informs the work of the Task Force in developing the ED; and

- Deliberations of the Task Force inform the work of the TWG as it develops NAM.

14. Specific to the technology project, the Task Force reflected on the broad scope of the recommendations, noting that the developing ED builds on the IESBA's recently approved revisions to the Code arising from the Role and Mindset and Non-Assurance Services (NAS) projects. A few stakeholders have also questioned if these two recently completed projects might in principle address some of the concerns identified for consideration in the technology project plan.

Planning Committee Recommendation to Defer the Technology-related Exposure Draft

15. Having reflected on the current environmental challenges stakeholders are facing and on the discussion with the Task Force and TWG, the Planning Committee recommends a short-term deferral of issuance of the ED. The Planning Committee considers that such deferral would:

- Be responsive to stakeholder concerns about standards churn further adding to an already burdensome COVID-19 environment;

- Provide a period of stability to support raising focused awareness and adoption of the recently approved NAS and Fees revisions and minimize any disincentive to such adoption;[3]

- Allow stakeholders more time to fully consider both the Role and Mindset and NAS revisions to enable them to fully engage with the technology ED being built on those revisions;

- Enable collaborative work with the roll out and implementation of the NAS revisions to explore how the revised NAS provisions might already address some concerns flagged for consideration by the Technology Task Force as stakeholders work to adopt NAS; and

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2   Including those previously signaled for a Phase 2 work stream within the Phase 1 report

3   Subject to PIOB approval, the NAS and Fees pronouncements are expected to be issued by April 2021.

- Create sufficient space to allow a greater focus on the development of NAM as a helpful and agile response to stakeholder requests for, expectations of IESBA leadership in, the provision of guidance.

16. The Task Force, TWG and Planning Committee also discussed when the most appropriate time to issue the ED would be. Various timeframes were considered ranging from deferring the approval of the ED for 3 months to up to a year. On balance, the Planning Committee recommends that the Task Force works towards having an ED ready for IESBA approval in December 2021.

17. This recommendation takes into account the aforementioned considerations for deferral, stakeholder feedback from the technology survey results, the work and progress made to date, and the fact that seven Board members will rotate off the Board at the end of 2021.

18. The table below provides revised indicative timing for key milestones in the project:

Timing	Milestone
March 2021	Report back to IESBA CAG
	IESBA consideration of recommended deferral of ED
June 2021	Discussion of issues with IESBA
September 2021	First read of proposals to IESBA CAG and IESBA
December 2021	IESBA consideration and approval of ED
June 2022	Highlights of ED responses to IESBA
September 2022	Discussion of significant ED comments with IESBA CAG
	Full review of ED responses with IESBA
December 2022	Issues and first read to IESBA post-exposure
March 2023	Discussion of final proposals with IESBA CAG
	IESBA approval of final pronouncement

Planned Approach to Develop Guidance

19. Rather than working toward a final report, the TWG plans to develop and release – whether independently or together with collaboration partners – at least four pieces of NAM during 2021. The TWG also plans to provide quarterly updates to the IESBA in relation to its fact finding and information gathering activities.

20. Additional information about the proposed scope and timing of the TWG activities is included in **Agenda Item 4-B**, on which Board views are sought.

Coordination between Technology Task Force and Technology Working Group

21. 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.

Next Steps

22. Subject to Board agreement to the Planning Committee's recommendation regarding the timing of the ED, an IESBA Update will be issued following the March 2021 meeting to explain to stakeholders the revised timeline for the technology-related ED and brief stakeholders on the remit and planned activities of the TWG.

23. The Task Force plans to reflect on all feedback received and develop a further issues paper for the June 2021 Board meeting.

24. The TWG will advance its work as outlined in its proposed Terms of Reference.

Action Requested

25. IESBA members are asked to:

    (a) Agree the revised timeline for the approval of the ED;

    (b) Provide thoughts on the key messages received in response to the two technology surveys in **Agenda Item 4-A**; and

    (c) Agree the proposed scope and focus of the TWG's activities as outlined in its draft Terms of Reference in **Agenda Item 4-B.**

Material Presented

Agenda Item 4-A   Technology – Survey results

Agenda Item 4-B   TWG – Terms of Reference

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[4] 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[5] 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[6] and 300,[7] 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[8] 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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[4] Section 120, *The Conceptual Framework*

[5] Paragraph 120.6 A3

[6] Section 200, *Applying the Conceptual Framework – Professional Accountants in Business*

[7] Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

[8] 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 111[9] 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.[10] 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 114[11] 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,[12] 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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[9] Subsection 111, *Integrity*

[10] Section 220, *Preparation and Presentation of Information*

[11] Subsection 114, *Confidentiality*

[12] Section 520, *Business Relationships*

- • Revise Section 600,[13] particularly Subsection 606,[14] 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[15] 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.

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[13]   Section 600, *Provision of Non-assurance Services to an Audit Client*

[14]   Subsection 606, *Information Technology Systems Services*

[15]   Section 510, *Financial Interests*