

IESBA Technology Working Group — Terms of Reference

March 2021

A. Background

1. The IESBA's Technology Initiative is a high priority initiative as outlined in the IESBA's *2019-2023 Strategy and Work Plan (SWP)*. Recognizing the breadth and dynamism of technology and its impact on the accountancy profession, the IESBA in December 2018 determined to take a systematic, risk-based and phased approach¹ to explore the ethical implications of technological developments on the accounting, assurance and finance functions, and identify actions to respond to stakeholder expectations.
2. The first phase of the Initiative, focusing on the impact of Artificial Intelligence (AI), Big Data and Data Analytics on the ethical behavior of professional accountants (PAs), commenced in December 2018 and culminated in the [TWG Phase 1 Final Report](#) in December 2019. The report concluded that *"generally, the Code currently provides high level, principles-based guidance for most technology-related ethics issues that PAs and firms might encounter."*²
3. The Phase 1 Final Report also set out:
 - (a) Seven recommendations for enhancing the Code;
 - (b) Four potential topics for non-authoritative guidance material (NAM);
 - (c) Recommendations for the next phase of the Technology initiative, including two distinct work streams, each with a different focus and remit:
 - (i) A formal project and related Task Force to consider potential enhancements to the Code based on the seven recommendations; and
 - (ii) A Working Group focusing on Phase 2³ fact finding and information gathering as well as the agile development of NAM.
4. Accepting the report, the IESBA agreed to commence a project to develop enhancements to the Code and established the Technology Task Force (TTF). The IESBA approved the [Project Proposal](#) in March 2020.
5. In December 2020, the IESBA established a new Technology Working Group (TWG) to focus on the agile development of NAM to meet market needs, as well as conduct fact finding and information gathering into technology with potential impacts on PAs.

¹ [December 2018 IESBA Meeting Agenda Item 7 paragraph 5](#) and [SWP Basis for Conclusions paragraph 34](#)

² [Phase 1 Final Report, page 5](#)

³ The Phase 1 Final Report ([page 30](#)) recommended the following technology-related topics be considered as priorities for Phase 2: Blockchain, Cryptocurrencies and Initial Coin/Security Token Offerings; Cyber-crime and Cyber-security; Internet of Things; Data governance. In addition, the Approved Project Proposal for the Technology Task Force ([paragraph 7](#)) also includes Cloud-based Services as a topic to be considered under Phase 2.

B. Objectives

6. The objectives of the Working Group are:
 - (a) To develop, or facilitate the development of, NAM on technology-related topics that would benefit PAs and the wider stakeholder community through (i) raising their awareness of the ethical implications of technology-related developments for PAs and/or (ii) supporting PAs in consistently applying the Code in addressing related ethical dilemmas or conflicts, including with respect to independence; and
 - (b) To identify and assess the potential impact of technology on the behavior of PAs and the relevance⁴ and applicability of the Code.

C. Focus and Scope

Development of Non-Authoritative Guidance Material

7. The Working Group considered a list of potential topics (see **Appendix A**) on which the need for NAM was previously identified through stakeholder outreach and documented in: (a) the Phase 1 Final Report; (b) the October 2020 International Federation of Accountants (IFAC) Ethics & Tech Virtual Knowledge Sharing Event summary; and (c) the 2020 Board agenda papers prepared by the TTF.
8. Given the dynamic nature of technological disruption resulting in an ongoing flow of new technologies and new applications of existing technologies, the Working Group will monitor and update the topics as necessary so that the development of NAM is relevant, useful and agile to address stakeholder needs.
9. The Working Group has prioritized four broad topics for NAM in 2021, to be issued quarterly:
 - (a) Ethical Leadership in an Era of Complexity and Digital Change
 - (b) Confidentiality and Data Privacy
 - (c) Auditor Independence⁵
 - (d) Accountability and Transparency
10. In prioritizing these four topics for 2021, the Working Group was informed by feedback from the TTF, the TTF's survey results⁶ and the Phase 1 Final Report, as well as from the IESBA, the IESBA Consultative Advisory Group (CAG) and the Public Interest Oversight Board (PIOB) during 2020. Furthermore, the Working Group also took into account the pervasiveness and relevance of each topic to PAs in the current environment, as well as the potential for non-compliance with, or inconsistent application of, the Code.

⁴ For example, modernization of terms and concepts in addition to those recommended in the [Phase 1 Final Report](#), page 23

⁵ In close coordination with the Rollout Working Group for Non-Assurance Services (NAS) and Fees.

⁶ In October 2020, the TTF launched two surveys: (1) technology and complexity in the professional environment and (2) the impact of technology on auditor independence.

Identifying and Assessing the Potential Impact of Technology on the Code

11. The Working Group will conduct fact-finding and information gathering on technology with potential impacts on PAs, prioritizing those not covered in Phase 1. In the first instance, the Working Group will consider the following disruptive technologies or related topics⁷ recommended as priorities by the Phase 1 Final Report and the TTF approved project plan:
 - (a) Blockchain, e.g., Cryptocurrencies and Initial Coin/Security Token Offerings;
 - (b) Cyber-security;
 - (c) Cloud-based Services;
 - (d) Internet of Things; and
 - (e) Data Governance.
12. Specifically, the Working Group will identify and assess the potential impact of these topics on the relevance and applicability of the Code from the perspective of PAs' compliance with the fundamental principles and, where applicable, the International Independence Standards (IIS) when developing, using or applying disruptive technologies in undertaking professional activities.

D. Approach

13. Given the pervasive and transformational impact of technology, various stakeholders (including national standard setters (NSS), professional accountancy organizations (PAOs), regulators, IFAC and other professional or international organizations, and academia) have already been actively conducting fact-finding and research into the ethical implications of disruptive technologies on PAs. Stakeholders have also been exploring the impact of technology on the future of the accountancy profession. Some have also developed guidance and thought-leadership material to assist PAs and firms in determining how best to prepare for the future as well as how to appropriately address the ethical implications of technology in the professional environment.
14. Additionally, there are various coalitions of technology industry associations and other organizations and experts with whom it might be beneficial to engage to obtain a better understanding of how accounting and business will evolve with technology.
15. The Working Group will therefore seek collaborative opportunities with selected stakeholders and further build upon the work already done to advance a collaborative response to the challenges and opportunities that disruptive technologies present. This collaborative approach is outlined below.

Development of Non-Authoritative Guidance Material

16. The Working Group will seek collaborative opportunities to facilitate the development of NAM. Where appropriate or where no collaborative opportunity is identified, the Working Group will develop NAM independently.
17. Together with selected stakeholders, the Working Group will determine the appropriate format for NAM based on considerations such as the topic area, target audience, extent of coverage and level of detail. Formats include but are not limited to:

⁷ Also in alignment with IFAC's priority topics in relation to technology: **A**rtificial Intelligence and Robotic Process Automation; **B**lockchain, Cryptocurrencies and Initial Coin Offerings; **C**yber-crime and Cyber-security; and **D**ata Analytics and Big Data.

- Frequently Asked Questions (FAQs)
 - Publications or articles showcasing thought-leadership or best practices
 - Live webinars, pre-recorded audio or video segments, or other multi-media educational presentations
18. It will be important to develop NAM based on actual use cases. Accordingly, the Working Group will take into account examples from: (a) the [October 2020 Surveys on Auditor Independence and Complexity in the Professional Environment](#); and (b) the Working Group's outreach, desk research, and other information gathering activities (see section below).
19. To the extent that the NAM relates to applying the Code specific to the one of the seven recommendations that the TTF is advancing, the TWG will seek TTF input as part of its process while such NAM is developed.
20. It is anticipated that drafts of NAM will be reviewed by IESBA staff and the TWG and, where applicable, any stakeholders collaborating on the NAM before being issued in final form. Broader IESBA Board consideration will normally be in the form of a "fatal flaw" review circulated out-of-session; however, some instances of NAM might be brought to the Board for deliberation.

Identifying and Assessing the Potential Impact of Technology on the Code

21. Building on the fact-finding and information gathering activities conducted by the TTF and TWG to date, the Working Group will conduct its fact-finding and information gathering activities on disruptive technologies or related topics and their impact on ethical behavior for both PAs in business (PAIBs) and PAs in public practice (PAPPs) through various avenues, including but not limited to the following:
- (a) Focused outreach with a diverse range (professional role, perspective, and geographic representation)⁸ of stakeholders on ethics-technology issues;
 - (b) Review of existing reports, articles and other publications and media;
 - (c) Collaborative opportunities with NSS, PAOs, regulators, IFAC and other professional bodies, and other relevant organizations and institutions;
 - (d) Attendance at relevant technology conferences or symposia; and
 - (e) Potential commissioning of academic or consulting firm research.
22. As a result of its fact-finding and information gathering activities, the Working Group may find areas where Code enhancements or changes might be warranted. In this respect, the Working Group will coordinate with the TTF to make recommendations to the IESBA.

Coordination with IESBA workstreams and IAASB

23. Efficient coordination and regular interaction with the TTF will be critical given that both work streams will rely on largely the same information sources (e.g., findings from information gathering, survey results, coordination and collaboration with industry experts and other stakeholders, etc) for separate but complementary purposes. Such coordination will mitigate repeating conversations both internally

⁸ With respect to professional role and perspective, this includes PAIBs, individual PAPPs and Firms, PAOs, NSS, Regulators, Investors, Those Charged With Governance, Academics, and IT professionals.

and with stakeholders, provide relevant two-way feedback, reduce duplication of effort, and ultimately enhance the outputs of both groups.

24. In addition, the Working Group will liaise and coordinate with the IESBA's:
 - (a) Former NAS and Role & Mindset Task Forces, as well as with the Rollout Working Group for NAS and Fees in relation to the application of the Code revised for the latest NAS and Role & Mindset provisions. This is against the backdrop of increasing use of technology in the provision of NAS and the impact of technology on the ethical behavior of PAs in complying with the fundamental principles and the independence standards.
 - (b) Tax Planning and Related Services Working Group with respect to recommendation 2 "complexity" in the Phase 1 Final Report.
 - (c) Emerging Issues and Outreach Committee (EIOC), as appropriate, if any issues outside the remit of this Working Group and TTF are identified; and
 - (d) The IESBA-NSS COVID-19 Working Group as appropriate given the ongoing pandemic since early 2020 has accelerated the use of technologies in the professional environment.
25. The Working Group will coordinate with the International Auditing and Assurance Standards Board (IAASB) and IFAC's International Panel on Accountancy Education (IPAE) to ensure that (a) the material developed by the TWG is consistent with the IAASB's standards and IFAC's International Education Standards as relevant, and (b) there is regular information sharing to identify areas of mutual priority or interest.

Communications

26. With support from IFAC Communications, the Working Group will regularly update stakeholders through a variety of channels such as the IESBA and IFAC websites, eNews, and social media.

E. Deliverables

27. During 2021, the Working Group will:
 - (a) Develop and release on a quarterly basis, in collaboration with others or independently, NAM specific to raising awareness of ethical behavior and applying the Code related to technology;
 - (b) Provide quarterly updates to the IESBA, including presenting for discussion matters identified from information gathering. This may include, in conjunction with the TTF, making recommendations as to additional areas where Code changes related to technology might be warranted. The Working Group will also share educational material and invite industry experts to share information it believes will help inform the Board's understanding and thinking on the ethical implications of technology developments;
 - (c) At the December 2021 IESBA meeting, present the Working Group's recommended way forward within its quarterly update as informed by its work during 2021. This will be in addition to the TTF's workplan at that time and the IESBA's strategy and pipeline with respect to technology. It will be important for the IESBA to remain open minded and flexible in terms of what the scope of the next phase of work will be given the inherent dynamic nature of technological change and related impacts on the accountancy profession; and

- (d) Establish a dedicated webpage specific to *Technology: Ethics and Independence Considerations* that can house information gathering outputs, published NAM, and other curated resources that might be useful to assist stakeholders in navigating challenges and opportunities.

F. Composition

- 28. The Working Group is chaired by an IESBA member, with three other working group members.

Appendix A

2019-2020 List of potential topics for non-authoritative guidance material

- Impact of the pervasive nature of technology and machine bias (with links to Recommendations 1, 2 and 3 in the TWG [Phase 1 Final Report](#))
 - Relationship between common AI ethics framework principles and the Code's fundamental principles
 - Guidance and a framework for evaluating ethical issues and biases when the firms use automation and AI to perform audit procedures
- Leadership in promoting an ethics-based culture, exemplified by appropriate tone at the top, using scenarios and cases (with links to Recommendations 1 and 3 in the TWG [Phase 1 Final Report](#))
 - PA's role in influencing the ethical development and use of disruptive technologies within their scope of competence and at all times being appropriately staffed
- Distinction between complicated and complex (with links to Recommendation 2 in the TWG [Phase 1 Final Report](#))
- Importance of keeping a PA's competence levels and skills up to date (with links to Recommendation 6 in the TWG [Phase 1 Final Report](#))
 - Highlight the technical skills and mindset needed for technology upskilling and the importance of professional skills that are not easily replicable by technology
- Importance of maintaining confidentiality in a digital age and how related concepts such as data governance and data privacy are addressed in the Code (with links to Recommendation 5 in the TWG [Phase 1 Final Report](#))
 - Examples of the PA's role (both PAIB and PAPP) in protecting confidentiality at each stage across the data governance process
- Examples of circumstances where the PA is encouraged or required to be transparent (with links to Recommendation 3 in the TWG [Phase 1 Final Report](#))
- Emphasize that it is in the public interest for a PA to be accountable for the decisions, actions and outcomes for which they have due responsibility (with links to Recommendation 4 in the TWG [Phase 1 Final Report](#))
 - Explain how PAs are held accountable for complying with the Code, for example with respect to how adoption and adherence to the Code is overseen
- Auditor Independence (with links to Recommendation 7 in the TWG [Phase 1 Final Report](#))

- Impact of revised NAS provisions on new and emerging services
 - Explain applicability of the revised NAS provisions (including subsections 601 to 610) and how different technologies can be used to support or provide such services
- Emphasize that the increasing interrogation of a company’s dataset by the auditor might lead to an increased risk of providing business insights which go beyond what might typically be included in a management letter and instead represent something akin to an advice and recommendations service
- Subsection 601: Applicability of Routine or Mechanical and how this translates to a service deploying little or no professional judgement
- Subsection 606: Exploring the definition of significant off-the-shelf customization
- Subsection 606: Lifecycle of IT services (e.g. R&D, Implementation, Post-Maintenance)