

**Meeting:** IESBA

**Meeting Location:** Virtual

**Meeting Date:** November 30, December 1-3, 8 and 16,  
2021

## Agenda Item

# 7

### Technology Project – Cover Note, Issues and Task Force Proposals

#### I. Objective

1. To consider, with a view to approving for exposure, revisions to the Code relating to technology.<sup>1</sup>

During the December 2021 meeting, the IESBA will be asked to consider and react to a presentation from the Task Force<sup>2</sup> Chair that will among other matters:

- Walk-through the proposed text in **Agenda Item 7-B** and highlight how the Task Force has considered the input provided on:
  - The draft circulated to IESBA meeting participants in September 2021.
  - The October 2021 draft which was circulated to the IESBA via email.
  - The Task Force's proposals during outreach with key stakeholders during Q4 2021.

A summary of the key issues raised, and the Task Force's responses are set out in Section III of this paper.

- Brief the IESBA on the key issues that will be included in the Explanatory Memorandum (EM), including draft EM questions as set out in **Agenda Item 7-A**. The proposed text marked from extant Code is provided for information at **Agenda Item 7-C**.

The vote to approve the Technology exposure draft (ED) is planned for Day 6 of the meeting. To help prepare for the Task Force meetings that are scheduled during the meeting, comments and drafting suggestions on the proposed text and the draft EM meeting are welcome in advance by **November 29, 2021**. Please email [kamleung@ethicsboard.org](mailto:kamleung@ethicsboard.org).

<sup>1</sup> Reference to the Code includes revisions arising from IESBA projects that were completed as of December 2020, including: Revised Part 4B, *Independence for Assurance Engagements Other than Audit and Review Engagements* which became effective in June 2021; the Revisions to Promote the Role and Mindset Expected of Professional Accountants that will become effective in December 2021; the revisions relating to the objectivity of an engagement quality reviewer and appropriate reviewers that will become effective in December 2022, the Non-Assurance Service (NAS) and fee-related revisions that will become effective in December 2022.

<sup>2</sup> The Task Force comprises:

- Rich Huesken, Chair, IESBA Member
- Hiro Fukukawa, IESBA Member
- Greg Driscoll, IESBA Technical Advisor
- James Barbour, IESBA Technical Advisor
- Richard Fleck, Consultant

## **II. Activities since Last IESBA Meeting**

2. The Task Force held three meetings to develop the agenda materials for this meeting.
3. Since the September 2021 IESBA meeting, the Task Force Chair briefed and sought feedback from the following stakeholders on its proposals:
  - IOSCO Committee 1 Auditing Subcommittee (Monitoring Group member)
  - IFIAR Standards Coordination Working Group (Monitoring Group member)
  - IESBA's National Standard-Setters Liaison Group (IESBA-NSS)
  - IFAC's Small Medium Practices Advisory Group (SMPAG)
  - IFAC's Forum of Firms (FOF)

The Chair of the Task Force will brief the IESBA of the key outcome of the above meetings in December.

### *Consideration of IESBA Feedback on the September and October Draft Text*

4. Following the IESBA September 2021 meeting, the Task Force developed an updated draft of the proposed text (i.e., the [October Draft](#)) to reflect its consideration of the input received on the [September draft](#). That October draft was circulated to the IESBA via email. A schedule of the comments received, and the Task Force's responses is set out in **Agenda Item 7-E**.

### *Public Interest Oversight Board (PIOB) Public Interest Issues*

5. In developing its agenda meeting materials, the Task Force considered the PIOB's public interest issues in relation to the Technology project. The Chair of the Task Force will highlight how those issues have been dealt with as part of his December presentation to the IESBA.

### *Coordination with the Technology Working Group*

6. The Task Force and the Technology Working Group held a joint meeting in November 2021 to discuss matters relating to the proposed text. Except for the proposal to include a reference to the International Education Standards (IESs) discussed in Section III, D of this paper, the two groups agreed to refinements to the proposed text to address the various comments raised during that meeting.

## **III. Matters for IESBA Consideration**

7. Generally, IESBA members expressed support for the revisions to the proposed text set out in the October Draft. However, there were various drafting suggestions, comments and questions raised, the most substantive of which (including those raised by members of the Technology Working Group) are summarized below. **Agenda Item 7-B** illustrates in markup the further revisions that the Task Force made to address comments on the October draft.

A. *Identification and Description of Complex Circumstances*

8. Some IESBA members (including members of the Technology Working Group) questioned whether:
- The proposed material relating to complex circumstances should be expanded to better assist professional accountants (PAs) determine the difference between complex and complicated circumstances.
  - All PAs will be able to consistently identify or determine when a circumstance is complex.
  - The concept of “complex circumstances” is a matter that is already covered in the extant Code.

Task Force Response

9. Paragraphs 120.13 A1 to 120.13 A3 of **Agenda Item 7-B** reflects the Task Force’s refinements to incorporate some of the drafting suggestions provided to enhance the clarity of the proposed paragraphs relating to complex circumstances. Furthermore, the draft EM includes a discussion of the Task Force’s rationale for the proposed application material relating to complex circumstances (see **Agenda Item 7-A**, Part III-C, *Consideration of “Complex Circumstances” When Applying the Conceptual Framework*). The discussion in the draft EM includes:
- A detailed explanation and examples of complex circumstances.
  - A reference to additional contextual information, explanation and examples about the topic of complex circumstances as set out in the relevant thought leadership material published by the Technology Working Group.
  - A specific question to seek stakeholder input on the clarity and usefulness of the proposals.

B. *Matter Relating to Revisions to Subsection 606 – Information Technology (IT) Systems Services*

10. There were questions about whether the proposals in Subsection 606 *IT Systems Services* should:
- Acknowledge that some of the IT system services that might create a self-review threat always involve assuming a management responsibility.
  - Further describe the types of IT systems services in paragraph 606.2 A1.
11. Also, a representative of the FoF questioned whether the use of a client’s software as part of a firm’s service delivery had been considered in Section 520, *Business Relationships*.

Task Force Response

12. The Task Force deliberated the view expressed with respect to the proposals in Subsection 606 and determined that the proposed changes to Subsection 606 as set out in **Agenda Item 7-B** provide additional clarity and now explicitly include examples of the type of IT systems services that might create a self-review threat (i.e., prohibited for public interest entity (PIE) audit clients), and those that involve assuming a management responsibility for an audit client (i.e., prohibited for all audit clients).
13. In this regard, the Task Force further analyzed each service in paragraph 606.3 A1 of **Agenda Item 7-B** detail and determined that they always involved assuming a management responsibility.
14. It was noted that managing network security, business continuity services and disaster recovery services will always assume a management responsibility because a firm cannot satisfy extant paragraphs R400.14 and R606.3 (which set out the conditions required if a firm is to be satisfied that

client management will make all the judgments and decisions that are the proper responsibility of management). Finally, the Task Force also considered feedback from a Monitoring Group member who suggested that the provision of such services by a firm to its audit clients raises questions about independence in appearance. For enhanced clarity, these services have been repositioned as examples of IT systems services that always assume a management responsibility in the second bullet of paragraph 606.3 A1. That material was previously been included as examples of IT systems services that might create a self-review threat when they form part of or affect an audit client's accounting records or system of internal control over financial reporting in the October draft.

15. In terms of including definitions to differentiate between each type of IT systems service in the Code, the Task Force view is that to do so would be inappropriate and, potentially, have a limiting effect. The Task Force has defined the term "IT systems services" broadly so that the revised NAS provisions as well as the additional proposed provisions in Subsection 606 will apply to the widest range of IT systems services possible.
16. In relation to the suggestion to include examples of a firm's use of a client's software as part of a firm's service delivery within Section 520, *Business Relationships*, the Task Force recommends that IESBA seeks input on this matter by including a discussion and related question in the EM (see **Agenda Item 7-A**, Part IV: A – Relevance of the Independence Provisions When Selling and Licensing Technology (Sections 520 and 600)).

*C. Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements.*

17. It was suggested that the Task Force seek IAASB staff input on its proposed revisions to Part 4B (in particular, paragraph 950.10 A2) in order for it to retain the existing alignment to the concepts and terms in the IAASB's ISAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Task Force Response

18. The Task Force's view is that a self-review threat might be created if a firm is involved in designing, developing, implementing, operating, maintaining, monitoring, updating IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls. The last bullet of 950.10 A1 reflects the input of the IAASB staff.
19. With respect to PIE audit clients, the Task Force reaffirms that expectations about a firm's independence are heightened and notes the guidance provided for PIE audit clients in extant paragraphs 950.11 A1 to 950.11 A2, and the application material to assist firms in addressing such threats when applying the conceptual framework in extant paragraphs 950.12 A1 to 950.12 A4.

*D. Inclusion of a Reference to the IESs in Subsection 113*

20. There was a suggestion that the Task Force reinstate the following text that formed part of the June 2021 draft proposed text to incorporate an explicit reference to the [International Education Standards](#) (IESs) within Subsection 113, *Professional Competence and Due Care* of the Code.

Suggested language to refer to IESs in the Code

113.1 AX Standards of professional competence, such as those in the International Education Standards, are implemented through the professional competency requirements of individual jurisdictions.

#### Task Force Response

21. The Task Force is recommending the IESBA expose the issue for public comment in the EM (see **Agenda Item 7-A** Part III, D, Professional Competence and Due Care and Question 5).
22. During the December meeting, **IESBA members will be asked to: (i) consider the pros and cons of the Task Force’s proposed recommendation, and (ii) decide on whether to include in the Code the suggested language in paragraph 19 above to refer to the body of IESs.**

#### E. *Aligning the Terms in the Code to Terminology in Existing AI Frameworks*

23. There was a suggestion that the Task Force consider further aligning the terminology in the Code to terminology that is used in existing AI frameworks and other technology-related guidance (e.g., explainability and privacy).
24. There was a suggestion that the Task Force include a direct reference to “privacy” within the proposed definition of “Confidential Information” in the Code as stated in the text underlined below.

Confidential information Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not in the public domain. This includes information for which privacy would be required under applicable laws or regulations.

#### Task Force Response

25. To address this comment, the Task Force consulted with the Technology Working Group and developed refinements to paragraphs 200.6 A2, 300.6 A2 set out in **Agenda Item 7-B**.

#### IV. **Actions Requested**

26. The IESBA is asked to:
  - (a) Consider and react to the Matters for IESBA Consideration Section of this paper and the Chair’s presentation. Specifically, IESBA members will be asked for views about:
    - The inclusion of a direct reference to the IESs (see suggested language in paragraph 19 of this paper).
    - Whether the concept of “privacy” should be addressed in the Code (see suggested language in paragraph 23 of this paper).
  - (b) Agree to refinements (as appropriate) and approve the Technology ED for public comment.
  - (c) Provide input on the draft explanatory memorandum set out in **Agenda Item 7-A**.

#### V. **Exposure Period, Effective Date and Forward Timeline**

##### *Proposed Exposure Period*

27. Subject to the IESBA’s approval of the ED for exposure, the Task Force’s recommendation is that the comment period for the ED should be 120 days. The Task Force took into account:

- The broad scope of its proposals (i.e., involves a consideration of the entirety of the extant Code).
- The other forthcoming exposure drafts and pronouncements to be approved in December (e.g., the Engagement Team – Group Audits ED).

The 120-day period is intended to allow ample time (i.e., beyond the typical 90-day comment period) for stakeholders to review, translate and conduct jurisdictional outreach on the proposals as appropriate before responding to the ED.

*Effective Date*

28. It is recommended that the IESBA seek stakeholder views about an effective date for the proposals.

*Forward Timeline*

29. A Task Force meeting is tentatively planned for late May 2021 to consider respondents' feedback on the ED. The IESBA will be briefed on preliminary highlights and observations based on the issues raised by respondents in June 2022 and will consider the Task Force revisions to the ED in September and December 2022.
30. It is anticipated that the IESBA will approve the final technology-related revisions to the Code in March 2023.

**VI. Materials Presented**

*For Discussion*

- Agenda Item 7-A Technology Project – Draft Explanatory Memorandum (EM)  
Agenda Item 7-B Technology Project – Proposed Text (Mark-up from October Draft)

*For Information*

- Agenda Item 7-C Technology Project – Proposed Text (Mark-up from Extant)  
Agenda Item 7-D Technology Project – Proposed Text (Clean)  
Agenda Item 7-E Schedule of Comments on October Draft