

**Meeting:** IESBA  
**Meeting Location:** Virtual  
**Meeting Date:** September 13-17 and 27, 2021

## Agenda Item

# 7

### Technology Project – Issues and Task Force Proposals

#### I. Objective

1. To consider the “first-read” draft of the Technology Task Force’s<sup>1</sup> proposed revisions to the Code.

During the meeting, the Task Force Chair will:

- Brief the IESBA on the changes that have been made to the key proposals since the June 2021 meeting.
- Walk through the proposed revisions to the Code as set out in **Agenda Item 7-A, Technology-related Revisions – Mark-up from August Draft** and in **Agenda Item 7-B, Technology-related Revisions – Mark-up from Extant Code as revised by projects completed at December 2020**.
- Indicate matters that might warrant further consideration by the Task Force.

Comments and drafting suggestions on the proposed changes in advance of the Board meeting are welcome via email. Please email [kamleung@ethicsboard.org](mailto:kamleung@ethicsboard.org).

#### II. Background

2. The technology project was highlighted as a priority initiative in the IESBA’s [Strategy Work Plan 2019-2023](#) and is also responsive to comments from stakeholders and the Public Interest Oversight Board (PIOB). The project involves a review of the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code) to determine technology-related revisions that are necessary so that the Code continues to remain relevant and fit for purpose.
3. The Technology Project was approved in March 2020,<sup>2</sup> and has been informed by various inputs to date, including:
  - (a) [Phase 1 Report](#) issued in February 2020 which summarized the IESBA’s 2018-2019 fact-finding and research on the impact of trends and developments in artificial intelligence (AI), big data, and data analytics on the ethical behavior of accountants, both in business and in public

<sup>1</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

<sup>2</sup> The IESBA approved the Technology [Project Proposal](#) in March 2020.

practice. 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.”<sup>3</sup> However, the authors<sup>4</sup> of the Report identified seven areas (‘recommendations’) where the Code could be enhanced. These recommendations formed the basis of the March 2020 project proposal. (See Appendix 2).

- (b) Stakeholder [responses](#) on two global technology [surveys](#) which were issued in October 2020 on “*Technology and Complexity in the Professional Environment*” and “*The Impact of Technology on Auditor Independence*.”
- (c) Technology-related feedback on the Non-Assurance Services (NAS) [Exposure Draft](#). In finalizing the NAS project, the IESBA determined that certain technology-related issues should be addressed by the Technology Task Force.<sup>5</sup>
- (d) Continued stakeholder input, including from targeted outreach involving a broad range of stakeholder groups and geographies,<sup>6</sup> the IESBA’s Consultative Advisory Group (CAG) and the IESBA-National Standard Setters Liaison (NSS) Group. As noted in Section 4 of this paper, the Task Force plans to obtain further input from certain stakeholders on its proposals in Q4 2021 (e.g., representatives of the International Organization of Securities Commissions (IOSCO)).

#### About the Proposed Revisions

- 4. In considering its proposed revisions, the Task Force reviewed the entire Code, including the independence provisions. The Task Force’s proposed revisions are to the most current version of the Code (“extant Code”), taking account of the revisions arising from the following:
  - [Revised Part 4B](#), *Independence for Assurance Engagements Other than Audit and Review Engagements* which became effective in June 2021.
  - The [revisions](#) arising from the Role and Mindset Expected of Professional Accountants project that will become effective in December 2021.
  - The [revisions](#) relating to the objectivity of an engagement quality reviewer and an appropriate reviewer that will become effective in December 2022.
  - The Non-Assurance Service ([NAS](#)) and [fee](#)-related revisions to the Code that will become effective in December 2022.
- 5. The proposed text to be considered during the meeting forms **Agenda Items 7-A** (Technology-related Revisions – Mark-up from August Draft) and **7-B** (Technology-related Revisions – Mark-up from Extant Code as revised by projects completed at December 2020)).

---

<sup>3</sup> See page 4 of the Report which is accessible at: <https://www.ethicsboard.org/publications/iesba-technology-working-groups-phase-1-report>

<sup>4</sup> The February 2020 report was prepared by the Technology Working Group as of December 2019 which comprised Trish Mulvaney, IESBA Member (Chair), Greg Driscoll, IESBA Technical Advisor, Brian Friedrich, IESBA Member, Hironori Fukukawa, IESBA Member, Myriam Madden, IESBA Member.

<sup>5</sup> See pages 7-8 of the NAS [Basis for Conclusions](#).

<sup>6</sup> Refer to Appendix 1 to [Agenda Item 6](#) to sight the list of outreach activities relating to technology.

## Recap of June 2021 Discussions and Task Force Response

6. At its June 2021 meeting, the IESBA considered a [June strawman](#) of proposed changes to the Code. A summary of the key comments and suggestions raised by IESBA members during its June meeting, and the Task Force's related responses, along with an updated draft of the proposed text was circulated for IESBA input via email in August. Refer to Appendix 1 for an overview of the revisions reflected in the [August draft \(Updated from the June strawman\)](#).
7. The remainder of this paper addresses the Task Force's responses to the feedback from IESBA meeting participants on the Task Force's [August draft \(Update from June strawman\)](#); and based on the revisions to Parts 1, 2 and 4A of the Code, the Task Force's proposed changes to preserve the existing alignment between the language in Parts 2 and 3; and Parts 4A and 4B of the Code.

## Coordination with Technology Working Group and IAASB

8. In progressing its work, the Task Force continues to liaise with the Technology Working Group (TWG) and the staff of the IAASB<sup>7</sup>. For example, members of the Task Force participated in the TWG meetings with external presenters. Also, as part of the TWG information gathering efforts, the TWG informed stakeholders of proposed technology-related revisions to the Code being developed under the IESBA Technology project, and where appropriate joint TWG and Task Force outreach efforts are undertaken.

## III. Matters for IESBA Consideration

### Specific Link of Proposed Changes with Technology

9. Some IESBA meeting participants observed that the proposed revisions to Part 1 of the Code did not expressly relate to technology and questioned the rationale for them. For example, there was a request for further clarification as to the link between the proposed revisions at paragraphs 113.1 A1, 113.3 A1, 120.13 A2-A3 of the August draft, and technology.

### *Task Force Response*

10. The Task Force's view is that although these proposed changes were developed to address the ethical challenges faced by PA's when using, developing or implementing technology; they will also be applicable to other facts and circumstances:
  - 113.1 A1 relates to skills other than technical know how that are increasingly regarded as critical for the future-ready accountant and not ring-fenced by technology.
  - 113.3 A1 is applicable in the context of increasing public demands for transparency, e.g. non-financial reporting and transparency reports.
  - 120.13 A2-A3, which relate to complex circumstances, can also apply to rapidly changing myriads of laws and regulations with differing public interest angles from a jurisdictional versus global perspective.
11. The Task Force believes that these revisions will enhance the Code as it relates to professional accountants' application of technology in the course of their professional activities and in the execution of their professional activities more generally.

---

<sup>7</sup> In addition, Greg Driscoll is the IESBA correspondent member for the IAASB's Technology Working Group

**Matter for IESBA Consideration**

1. Do IESBA members agree with the Task Force's approach and proposed revisions to Part 1 of the Code (including those identified in paragraph 9 above)?

**Emphasizing the Types of Professional Skills Needed by PAs in the Digital Age**

12. The [Role and Mindset](#) revisions note that maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and technology-related developments.
13. Building off this, the Task Force was asked to provide further guidance on what other non-technical professional skills are needed by PAs in the digital age, while avoiding the use of vague and trending terms such as "growth mindset".
14. The Task Force noted that the recently revised International Education Standards<sup>8</sup> (IES) that came into effect on January 1, 2021 already reflect the increasing demand for accountants skilled in information and communications technologies and further emphasize professional skepticism skills and behaviors. As such, paragraph 113.1 A1 of the June strawman was revised to incorporate the skills that are defined by specific learning outcomes in [IES 3: Professional Skills](#) paragraph 7: (a) intellectual, (b) interpersonal and communication, (c) personal and (d) organizational skills.
15. IESBA members were broadly supportive of the direction of this proposal as set out in the August draft, with the following points being raised:
  - (a) Specific references to the IESs should be made in the Code.
  - (b) Other skills from [IES 3: Professional Skills](#) and [IES 4: Professional Values, Ethics, and Attitudes](#)<sup>9</sup> should be included, for example in IES 3: intellectual skills (such as critical thinking, adaptability) and personal skills (such as commitment to lifelong learning).
  - (c) A few comments relating to the geography of the proposed change, including:
    - Concern at the inclusion of the change in R113.1(a), because it appeared to go beyond the current requirement.
    - A suggestion that the change be included as a new sentence to avoid diluting the importance of professional competence in extant paragraph 113.1 A1.

*Task Force Response*

16. The Task Force's view is that specific reference to the IESs in the text of the Code would be inappropriate given that some jurisdictions have their own education standards. The importance of education standards (with particular reference to the IESs) can be emphasized in the Explanatory Memorandum to the Exposure Draft instead.

---

<sup>8</sup> Professional accountancy organizations who are members of IFAC are required to develop and assess the competence of PAs in accordance with IESs. This is noted in [Statement of Membership Obligations 2](#) paragraph 12.

<sup>9</sup> Skills defined in learning outcomes for IES 4, paragraph 11: (a) Professional skepticism and professional judgment, (b) Ethical principles, (c) Commitment to the public interest

17. In relation to other skills in IES 3 and 4, the Task Force's view is that these were considered as part of the Role and Mindset project as demonstrated by the:
  - Addition of "Inquiring Mind" and "Professional Judgement" in the Conceptual Framework; and
  - Revised upfront introduction sections of the Code regarding a PAs "responsibility to act in the public interest" and "adhere to ethical principles".
18. The Task Force does not believe that the skills referred to in the second bullet point of paragraph 113.1 A1 in Agenda Item 7-A go beyond what constitutes the professional competence required by a PA in R113.1. In order to avoid diluting the meaning of extant paragraph 113.1 A1, the proposed revisions to the paragraph have been restructured to reflect two bullet points, with the first bullet being the extant guidance and the second bullet incorporating guidance on other skills needed. Finally, editorial and drafting suggestions have been accepted as appropriate.

#### **Matters for IESBA Consideration**

2. IESBA members are asked:
  - a) Whether there is a need to reflect the complete list of skills that are set out in IES 3 and 4?
  - b) Whether they agree with the proposed revisions in paragraph 113.1 A1 of **Agenda Item 7-A**?

#### **Developing Guidance on the Interplay Between "Transparency" and "Confidentiality"**

19. The Task Force was asked to develop guidance on how PAs should consider the interplay (i.e., the inherent tension) between the concepts of "transparency" and "confidentiality".
20. Extant paragraph R113.3 (reflective of the Role and Mindset revisions) already requires a PA to ensure clients, the employing organization, or other users of the PA's professional services or activities are aware of any limitations inherent in those services or activities. The Task Force's view is that this requirement provides an appropriate and logical starting point for additional application material (AM) in this regard.
21. Accordingly, the Task Force introduced new AM, paragraph 113.3 A1, in the August draft to expressly emphasize the relevance of the reasonable and informed third party (RITP) [test](#) in determining whether a PA has complied with both the fundamental principles of integrity and confidentiality, similar to the approach taken in the *Responding to Non-Compliance with Laws and Regulations* (NOCLAR) provisions. For example: not omitting information because it would be misleading to users of the information (FP of Integrity), versus not disclosing any confidential information acquired as a result of professional or business relationships (FP of Confidentiality).
22. IESBA feedback was broadly supportive of the direction of this proposal in the August draft, with the following points being raised:
  - (a) The term "transparency" should be in the Code so that it is searchable electronically.
  - (b) It is unclear how the proposed 113.3 A1 regarding the "adequacy of information" ties back to the extant requirement in R113.3 which is specific to the disclosure of "inherent limitations".
  - (c) It is difficult to understand the link between "the obligations of Integrity and Confidentiality" (to be fulfilled by an accountant) and "sufficient/appropriate information".

*Task Force Response*

Inclusion of the term “transparency” in the Code

23. The Task Force notes that the extant Code includes 2 mentions of the word “transparent” and 4 mentions of the word “transparency.”<sup>10</sup>
24. The Task Force believes that the concept of “transparency” is incorporated in the Code through the existing fundamental principles:
- (a) The concept of not withholding information in a manner that would be deceptive exists within the FP of Integrity (Subsection 111, paragraph [R111.2](#)). See extract of requirement below with relevant text in bold.
  - (b) The importance of shedding enough light to inform the decision making of others exists within the FP of Professional Competence and Due Care (Subsection 113, paragraph [R113.3](#)). See extract of requirement below with relevant text in bold.

<p><u>R111.2</u></p> <p>A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:</p> <ul style="list-style-type: none"><li>• Contains a materially false or misleading statement;</li><li>• Contains statements or information provided recklessly; or</li><li>• Omits or obscures required information where such <b>omission or obscurity would be misleading.</b></li></ul>	<p><u>R113.3</u></p> <p>Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, <b>aware of the limitations inherent in the services or activities.</b></p>
--	--

25. The Task Force considered whether there was merit to introducing new material to introduce additional references to the term “transparency” or “transparent” in the Code (i.e., at paragraphs R111.2 and R111.3). Having regard to previous IESBA deliberations at which some IESBA members characterized further additions of the term as editorial in nature and unnecessary, the Task Force is not proposing further revisions at this stage.

“Adequacy of Information” Versus “Inherent Limitations”

26. Having reflected on the comments received from Board members, the Task Force concluded that paragraph R113.3 should be revised to include a reference to the “...nature of the services...” as the it believes that discussions about the limitations inherent in a service or professional activity cannot properly be understood without an understanding of the nature of the service being provided.
27. The Task Force has refined the material at AM paragraph 113.3 A1 of **Agenda Item 7-A** so that it is aligned to the material in revised paragraph R113.3 of **Agenda Item 7-A**.

<sup>10</sup> See Inducements Sections in Part 2 (“transparency”: 250.9 A3; “transparent”: 250.11 A6) and Part 3 (“transparency”: 350.9 A3; “transparent”: 340.11 A6), and revised Fees provisions of the Code (“transparency”: 410.3 A2, 410.31 A3).

### Integrity, Transparency and Confidentiality

28. As outlined above, the Task Force believes that one concept of transparency is highlighted in the fundamental principle of Integrity in extant paragraph R111.2(c) *“A professional accountant shall not... (c) Omits or obscures required information where such omission or obscurity would be misleading”*.
29. The Task Force believes that this creates an inherent tension with the fundamental principle of Confidentiality in extant paragraph R114.1, which *“requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships”* by, among other actions, not disclosing and not using confidential information acquired, and by maintaining confidentiality of information acquired.
30. The tension arises because extant paragraph R114.1 requires a PA not to disclose information, whereas extant paragraph R111.2(c) does not permit the omission of information if to do so would be misleading for stakeholders. The inclusion of the statements “the obligations of Integrity and Confidentiality” and “sufficient/appropriate information” in the August draft was intended to reflect this tension.
31. Upon reflection, the Task Force agrees that a detailed discussion that is aimed at unpacking the relevance between the two concepts is overly detailed for the Code. Accordingly, the AM has now been simplified to more effectively convey how PAs might determine the sufficiency of information to be provided about a professional service or activity – by using the reasonable and informed third party test. The Task Force thinks that this AM is applicable under any facts or circumstances (i.e., including where there is an inherent tension between transparency and confidentiality)

#### **Matters for IESBA Consideration**

3. Do IESBA members agree with:
  - a) The Task Force’s response to the suggestion that the term “transparency” should be used in the discussion of this issue in the revisions to the Code?
  - b) The proposed approach – in paragraphs R113.3 and 113.3 A1 of **Agenda Item 7-A** - to address the interplay between transparency and confidentiality in a principles-based manner?

#### **Emphasizing the Importance of Confidentiality in the Digital Age**

32. Proposed paragraph 114.1 A2 as presented in the August draft was developed to provide guidance to prompt PAs to actively consider the confidentiality of information across the data governance cycle.
33. IESBA feedback was broadly supportive of the direction of this proposal in the August draft, with the following points being raised:
  - Concern that the AM was drafted like a requirement and therefore a request to elevate it to a requirement.
  - Drafting suggestions including simplification of the AM under structure principles and deletion of the terms “possession, knowledge, and control”.

*Task Force Response*

34. The Task Force believes that extant paragraph R114.1 (b) and (c): “An accountant shall: ... (b) maintain confidentiality of information within the firm or employing organization; (c) maintain confidentiality of information disclosed by a prospective client or employing organization” already prompts a PA to consider confidentiality more actively.
35. In order to emphasize the importance of this concept, proposed paragraph 114.1 A2 in the August draft was developed to further explain how a PA might “maintain confidentiality of information” and to highlight that it is relevant across the data governance cycle. The Task Force believes that the revised AM explains the requirements in extant paragraphs R114.1 (b) and (c) and hence does not elevate it into an additional requirement.

**Matter for IESBA Consideration**

4. Do IESBA members agree with the Task Force’s revised proposals with respect to confidentiality?

**Factors that Impact the Application of the Conceptual Framework When Technology is Used**

36. New AM 120.6 A5 was developed in the August draft to provide examples of factors that are relevant when identifying threats to the fundamental principles.
37. Key feedback from IESBA (summarized in Agenda Item 7-C) included that:
  - The proposed paragraph weakens the Conceptual Framework (CF) as it is focusing on just one aspect that could create a threat, technology, whereas PAs should consider facts and circumstances more generally when identifying threats to the fundamental principles (i.e., extant paragraphs R120.6 to 120.6 A4).
  - The proposed paragraph deviates from the structure of the CF as the identification of threats consists of considering facts and circumstances, rather than factors which is used to evaluate the level of the threat identified (i.e., extant paragraphs 120.8 A1 to A2).
  - Questioned the specific reference to a self-review threat and whether there would be other threats created.

*Task Force Response*

38. The Task Force’s view is that this guidance is appropriately located given the pervasiveness of technology throughout the facts and circumstances that are required to be considered in the current professional environment. Acknowledging the view that it may deviate from the structure of the CF, a few drafting refinements have been made, taking into account the drafting suggestions made to date and considerations of other threats that might be created. **The Task Force welcomes further drafting suggestions to refine the AM in paragraph 120.6 A5 of Agenda Item 7-A.**

**Matter for IESBA Consideration**

5. Do IESBA members agree with the proposed AM, given the pervasiveness of technology when considering the facts and circumstances that might create threats to compliance with the fundamental principles?

## Complexity

39. Responsive to the views of 82% of respondents to the survey on *Technology and Complexity in the Professional Environment*, the Task Force developed new AM relating to complexity. This AM is set out in paragraphs 120.13 A1 to A3 of Agenda Item 7-A and includes refinements to reflect IESBA meeting participants input on the August 2021 draft. The guidance includes examples of what might constitute complex circumstances and actions that might help PAs manage and mitigate such circumstances.
40. Broad support from the IESBA was expressed for the inclusion of a subsection on complexity. Key IESBA feedback on the August draft included suggestions to:
  - Clarify how a PA should be addressing complexity in the context of the CF.
  - Clarify that the environment a PA operates in is not necessarily always complex.
  - Incorporate the underlying concept of complex circumstances – namely that they cannot be solved and need to be managed and mitigated (e.g., climate change and the pandemic).
  - Provide examples of complex circumstances relating to technology and why using technology to provide relevant information quickly and frequently could be a relevant action to mitigate or manage complexity.

### *Task Force Response*

41. The Task Force has considered and accepted the feedback summarized above and, accordingly, refined the proposed application material in paragraphs 120.13 A1 to A3.
42. The Task Force is of the view that the ways in which the examples of complex circumstances (i.e. “interconnected or interdependent elements that are uncertain or unpredictable or involve multiple variables and assumptions”) could relate to technology include that, multiple data inputs into AI machine learning could generate unpredictable outcomes.
43. The Task Force’s view is that using technology to provide relevant information quickly and frequently could be a relevant action to mitigate or manage complexity because it helps with multiple scenario analyses and iterations, enabling continuous risk management.

### **Matter for IESBA Consideration**

6. IESBA members’ views are sought on the Task Force’s proposed AM paragraphs 120.13 A1 to 120.13 A3 of **Agenda Item 7-A** to highlight the implications of complex circumstances.

## **Relying on technology as a PAIB and PAPP**

### *Determining whether Reliance on Technology Is Reasonable*

44. Paragraphs R220.7 and 220.7 A2 in the August draft were revised to incorporate factors to consider when a PA determines whether reliance on technology is reasonable. IESBA feedback was broadly supportive of these proposals subject to some drafting suggestions and clarifications.

#### Task Force Response

45. The Task Force has considered the feedback and, as appropriate, accepted and revised the draft text.
46. Revisions were made to Part 3 (i.e., paragraphs R320.10 and 320.10 A2) so that it remains aligned to the material in Part 2.

#### *Technology and Levels of Seniority*

47. A question was raised regarding paragraph 220.7 A3 in the August draft and why the seniority of a PA impacts the determination of reliance on technology. This was raised against the context that certain groups of individuals and cultures (e.g., junior staff who might be from a younger generation) might have greater access to technology or might feel more comfortable than their more senior counterparts in keeping up with the pace of change necessary to understand how technology works.

#### Task Force Response

48. The Task Force's view is that these are two separate matters. Proposed 220.7 A3 acknowledges that the opportunity and availability of information to a PA may differ depending on the PA's seniority and position in the employing organization or firm. The use of "seniority" does not reflect the PA's age.

#### **Matter for IESBA Consideration**

7. IESBA members' views are requested on the Task Force's proposed technology related revisions to Sections 220 and 320 in **Agenda Items 7-A**.

#### **NAS Related Revisions**

##### *Subsection 601: "Routine or Mechanical" Accounting and Bookkeeping Services*

49. Building on the refinements in the NAS project which clarify that "routine or mechanical" accounting and bookkeeping services: (a) Involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and (b) Require little or no professional judgement; the Task Force has developed additional AM in the August draft to assist users of the Code to appreciate that automated NAS are not necessarily routine or mechanical. In this regard, IESBA feedback was broadly supportive of this new AM in the August draft.
50. The Task Force also considered whether the placement of the application material for "routine or mechanical" was appropriate in light of the fact that 'routine or mechanical' services are not limited to accounting and bookkeeping or administrative services, as noted in paragraphs 102 and 103 of the [Basis for Conclusions](#): Revisions to the NAS Provisions of the Code.
51. The Task Force is of the view that no change is needed at this time because to do so would radically undermine the revised NAS provisions. The overarching objective of the Task Force as supported by the IESBA is to minimize any changes to the recently approved NAS revisions as that could potentially undermine the revised provisions or adversely impact adoption or implementation.

##### *Applicability of the Prohibition on Assuming Management Responsibility When Using Technology*

52. Paragraph 400.14 in the August draft sought to remind users of the Code that regardless of whether technology is used when performing a professional activity or service, the prohibition on assuming a

management responsibility applies. IESBA feedback was mixed with a few questioning the need for the paragraph.

53. The Task Force reflected on stakeholder feedback from the NAS project, which noted that automated services that appear to be “routine or mechanical” could, in substance, result in an assumption of a management responsibility. It was concluded that proposed paragraph 400.14 A1 in Agenda Item 7-A would help clarify this matter and complement proposed paragraph 601.5 A2 in Agenda Item 7-A.

*Sections 520 and 600: Use of Technology, including the Sale and Licensing of Technology*

54. Guidance in Sections 600 and 520 of the Code was developed in the August draft to remind users of the Code that the NAS provisions are relevant when a firm uses or licenses technology to perform a NAS. The Task Force believes these additions address the responses from the survey on *The Impact of Technology on Auditor Independences*, where 24% of respondents did not think that NAS provisions are relevant when a firm licenses technology that performs a NAS, and others recommending the addition of new paragraphs to deal with simple business relationships.
55. An example of a close business relationship was also added in paragraph 520.3 A2 in the August draft regarding arrangements under which a firm or network firm develops jointly with an audit client, products or solutions that one or both parties sell or license to third parties.
56. In addition, guidance in paragraph 600.9 was added in the August draft to prompt PAs to consider the frequency with which the service might be provided using technology when identifying the different threats that might be created by providing a NAS to an audit client and evaluating the level of such threats. The Task Force’s view is that if an audit client requests a firm to conduct a service using technology with increased frequency (e.g. due to the insights gained from application of data analytics), it could be regarded as forming part of the audit client’s internal controls over financial reporting.
57. IESBA feedback was broadly supportive of the direction of these proposals in the August draft with some drafting suggestions to clarify the Task Force’s intent in paragraph 600.6 and 600.9.
58. However, there was concern expressed that proposed paragraph 520.7 A1<sup>11</sup> in the August draft would create unintended consequences unless the Task Force clarified the types of sale or licensing that would fall under this statement.

Task Force Response

59. The editorial refinements and suggestions were accepted where appropriate.
60. The Task Force reflected on concerns expressed in relation to proposed paragraphs 520.7 A1 and 520.7 A2 in the August draft. The Task Force’s objective in including the paragraphs had been to highlight the possibility that the sale and licensing of technology to an audit client might give rise to a business relationship in general, as a result of which a firm must assess if it meets the criteria of a close business relationship by applying paragraphs 520.3 A1 and A2
61. In view of the comments received, the Task Force has added the term “sells” to the third bullet of paragraph 520.3 A2 in Agenda Item 7-A to expand on arrangements that might be a close business

---

<sup>11</sup> i.e. “the sale or licensing of hardware or software to an audit client by a firm or network firm does not usually create a threat to independence if it has not been designed or developed by the firm or network firm”

relationship and paragraph 520.7 A1 in the August draft has been removed. Paragraph 520.7 A1 of Agenda Item 7-A (formerly paragraph 520.7 A2 in the August Draft) highlights the need to consider Section 600 when a firm sells or licenses technology to an audit client. The Task Force believes that this guidance in Section 520 is beneficial to users of the Code because the sale or license transaction is an example of a broad general business relationship, so users of the Code might look in Section 520 for guidance on such a transaction before looking in Section 600. This was also illustrated in the survey responses as outlined in paragraph 54 of this paper above.

*Subsection 606 IT Systems Services: Implementation of “Off-the-shelf” accounting or financial information reporting software*

62. The Task Force considered whether the circumstances in which a firm or network firm may be allowed to provide IT systems services relating to the implementation of “off-the-shelf” accounting or financial reporting information software should be narrowed.<sup>12</sup>
63. The Task Force has concluded that implementing “off-the-shelf” accounting or financial information reporting software might create a self-review threat and, therefore, risk affecting the audit of the financial statements on which the firm will express an opinion or form part of the client’s internal control. Accordingly, in the August draft the Technology Task Force proposed:
  - (a) The withdrawal of the last bullet of extant paragraph 606.4 A2 (implementing “off-the-shelf” accounting or financial information reporting software) as an example of an IT systems service that does not usually create a threat when provided to an audit client; and
  - (b) Highlighting this as an example of an IT systems service that might create a self-review threat.
64. IESBA feedback was broadly supportive of the direction of the approach taken in the August draft. A few comments were made about:
  - The use of the qualifier “if it results in substantive changes to the operation of the software.” Other interchangeable terms were suggested that were deemed to be stronger or better understood.
  - The description of the service as implementing “off-the-shelf” accounting or financial information reporting software. Some suggested that the terms ‘configuration’ or ‘customization’ should be incorporated.

Task Force Response

65. Reflecting on the responses to the survey on *The Impact of Technology on Auditor Independence*, the Task Force concluded that including “if it results in substantive changes to the operation of the software” as a qualifier would be unnecessary because it creates inconsistency in the application material and would thereby weaken it. For that reason, the qualifier has been removed. The point, which was previously a separate paragraph, has been merged with paragraph 606.4 A4 in **Agenda Item 7-A**, which provides a list of examples that might create a self-review threat.
66. To reflect the broad range of services that might create a self-review threat both the terms “installation” and “customization” were incorporated in the description of the service (i.e. ranging from installation services with no modification or enhancement of the software code, to customization services that involve modification or enhancement of the software code). The Task Force’s view is that

---

<sup>12</sup> Refer to paragraphs 124 and 125 of the [Basis for Conclusions](#): Revisions to the NAS Provisions of the Code.

“customization” involves the modification or enhancement of the features and functions of the software solution in a way that goes beyond the options provided by a third party vendor.<sup>13</sup>

*Subsection 606 IT Systems Services: Hosting and other IT systems services other than designing, developing and implementing*

67. The Task Force has developed an expanded description of IT systems services to highlight that the services related to IT systems extend outside of the design, development and implementation of hard or software systems. These changes are set out in paragraph 606.2 A1 of the August draft and are responsive to respondents to the survey on *The Impact of Technology on Auditor Independence* who expressed support for the inclusion of new guidance to specifically deal with: (a) collecting, storing and hosting of data; (b) ongoing support maintenance and IT systems updates.
68. The Task Force deliberated on the rationale for prohibiting services related to operating, maintaining, monitoring, updating or hosting IT systems for all audit clients, considering the:
- IESBA feedback in June with respect to implications for non-PIE audit clients.
  - Structure and principles of the revised NAS provisions.
  - Prohibition on assuming a management responsibility emphasized in extant paragraph R606.3.
69. The Task Force concluded that not all services related to operating, maintaining, monitoring or updating IT systems services involve an assumption of management responsibility. The risk of assuming management responsibility is addressed adequately in extant paragraphs R606.3, 400.13 and 400.14. Accordingly, paragraph 606.4 A4 in the August draft was developed to provide examples of IT systems services that might create a self-review threat when they impact an audit client’s accounting records or system of internal control.
70. Separately, for hosting services, the Task Force’s view is that a firm assumes a management responsibility if it arranges or provides facilities to host an audit client’s data and such data is accessible only through the firm or network firm. The only exception is where a firm receives and retains data that was provided by an audit client in the course of providing a permissible service to that audit client.
71. Paragraph 606.4 A2 in the August draft was revised to clarify the types of services that do not usually create a threat as long as no management responsibility is assumed and the IT systems do not, directly or indirectly, generate information forming part of the accounting records or financial statements and are unrelated to internal control over financial reporting.
72. IESBA feedback was broadly supportive of the direction of these proposals in the August draft with the following points being raised:
- There was a view that the concept of a managed service which assumes a management responsibility appeared to be lost under the heading of examples of IT systems services that might create a self-review threat.
  - Questions were raised as to why providing advice on the provision of an IT systems service might create a self-review threat.

---

<sup>13</sup> Consistent with the [AICPA Interpretation on Information Systems Services](#)

- Suggestions to clarify various examples were provided.

#### Task Force Response

73. As explained above, the Task Force's view is that managed services do not necessarily result in a firm assuming a management responsibility provided the provisions under extant paragraphs R400.13, R400.14 and R606.3 are complied with. The Task Force has stayed true to the structure and principles of the NAS project in developing examples of IT systems services that might create a self-review threat.
74. In considering whether the provision of advice on the provision of an IT systems service might create a self-review threat, the Task Force noted that the revised NAS provisions state that advice and recommendations might create a self-review threat (revised NAS paragraph 600.11 A1). Whether a self-review threat might be created depends on the determination in revised NAS paragraph R600.14.
75. However, to clarify the Task Force's intent that providing business continuity and disaster recovery services might create a self-review threat as such services could form part of the audit client's system of internal control over financial reporting, the Task Force has removed "advice" from the bullet and merged "business continuity and recovery" into the example of "providing and maintaining network security services".
76. The suggestions to clarify various examples have been accepted where appropriate.

### Matters for IESBA Consideration

8. IESBA members' views are requested on the Task Force's technology-related revisions to the revised NAS provisions in **Agenda Item 7-A**, including in relation to:
  - a) Refinements to "*routine or mechanical*" accounting and bookkeeping services at paragraph 601.5 A2.
  - b) Clarifications of the applicability of the prohibition on assuming management responsibility when using technology at paragraphs R606.3 and 400.14 A1.
  - c) The use of technology, including the sale and licensing of technology at paragraphs 520.3 A2, 520.7 A1, and 600.6.
  - d) Examples of IT systems services that might create a self-review threat, including the implementation of "off-the-shelf" accounting or financial information reporting software at paragraph 606.4 A4.
  - e) Examples of IT systems services that do not usually create a threat at paragraph 606.4 A2.
  - f) The provisions in relation to hosting at paragraphs 606.3 A1 and A2.
9. Do IESBA members agree:
  - a) That all the examples in proposed 606.4 A4 might create a self-review threat and will not assume a management responsibility if the provisions under paragraphs R400.13, R400.14 and R606.3 are met?
  - b) With the prohibition of hosting in paragraph 606.3 A1 due to the assumption of assuming a management responsibility, subject to an exception where the receipt and retention of data provided by the audit client arises in the course of providing a permissible service to an audit client (paragraph 606.3 A2)?

### Office

77. The Task Force considered whether Section 510 should be revised to better capture the threats to independence that the use of modern communication technologies might create. It was noted in the Phase 1 Report that such technologies potentially challenge the notion that an engagement partner's physical office location may be a determining factor in whether another partner can unduly influence that engagement partner or the audit engagement in that same office.
78. The Task Force is of the view that no change is needed at this time because:
  - The extant definition of "office" makes it clear that an office can be defined based on different region/practice lines as opposed to by physical boundaries.
  - Reviewing Section 510 in context, in particular the reference to the term "location" in extant paragraph 510.4 A1 along with the definition of an office, the Task Force's view is that it is clear that in paragraph 510.4 A1 "location" is not necessarily determined by physical boundaries.
79. The Task Force also observed that remote working during the pandemic has made it clear that the determination of an engagement partner's office is not just based on physical location. Furthermore, in light of the evolving COVID-19 recovery discussions about what a future office would constitute, which may, for example, be a hybrid model of working both virtually or on-site at a physical office,

the Task Force does not believe that a change to the concept of “office” is necessary or appropriate at this juncture.

**Matter for IESBA Consideration**

10. Do IESBA members agree with the Task Force’s conclusion that there should be no change to the definition of “office” at this time?

**Amendments to Parts 3 and 4B of the Code**

80. Based on the revisions to Parts 1, 2 and 4A of the Code, the Task Force has proposed changes to preserve the existing alignment between the language in Parts 2 and 3, as well as Parts 4A and 4B, of the Code. Primarily, these are:
- Factors to consider when relying on technology (R320.10 and 320.10 A2)
  - Prohibition on hosting due to management responsibility (900.13 A4 and A5)
  - Reminder that prohibition of management responsibility applies regardless of extent of technology used (900.14 A1)
  - Examples of a close business relationship (920.3 A2)
  - Sale and licensing: business relationships and assurance engagements (920.6 A1 and 950.5)
81. Two other proposed changes are to:
- a) Paragraph 900.1 to make it explicit that Part 4B applies to assurance on an entity’s non-financial information; and
  - b) Paragraph 950.10 A1 to emphasize the self-review threat that might be created when providing an assurance reporting on information generated from IT systems designed, developed, implemented, operated, maintained, monitored, or updated by the firm or network firm.

The Task Force believes that these two proposed changes are responsive to survey respondents who asked for more guidance to cover non-financial reporting.

**IV. Next Steps**

82. The Task Force will consider the IESBA and CAG September input on the “First Read” draft and update the proposed text during its Q4 2021 meetings.
83. Also, during Q4 2021, the Task Force plans to obtain input on its updated proposals from representatives of:
- IOSCO (Monitoring Group member)
  - Forum of Firms
  - IFAC’s Small Medium Practices Advisory Group
  - IESBA’s National Standard-Setters Liaison Group

The IESBA will be briefed on the key outcomes of those meetings during its December 2021 meeting.

84. It is anticipated that the IESBA will be asked to approve an exposure draft at its December 2021 meeting.

**Material Presented**

- Agenda Item 7-A Technology-related Revisions (Mark-up from August Draft)
- Agenda Item 7-B Technology-related Revisions (Mark-up from Extant Code as revised by projects completed at December 2020)
- Agenda Item 7-C Schedule of IESBA Comments on August Draft
- Agenda Item 7-D Clean version of Technology-related Revisions

## Overview of the Revisions Reflected in the August Draft (Updated from the June Strawman)

### Part 1 of the Code

- (a) Reversed many of the June 2021 proposals that IESBA members viewed as editorial in nature, did not appear to add anything new to the Code, or related to a recommendation that was thought to have been already addressed as part of the Role and Mindset project.
- (b) Included a revision to incorporate the specific terms used and explained in the IES 3: *Professional Skills* paragraph 7, in response to a suggestion that the types/ nature of professional skills that PAs need to have in the digital age should be explained. There was a view that the language proposed in June 2021 was too “fuzzy” and could be clarified. In response, extant paragraph 113.1 A1 was revised to incorporate the specific terms used and explained in the IES 3: *Professional Skills* paragraph 7.
- (c) Introduced new guidance to explain the interplay between transparency and confidentiality.
- (d) Included refinements to reflect the Task Force’s further consideration and intent with respect to the use of the term “protect” in Subsection 114, *Confidentiality*.

### Part 4A of the Code

- (a) Within Section 520, *Business Relationships*:
  - Reversed the June 2021 proposed examples of a close business relationship that IESBA members viewed as confusing and added an example of co-development of technology between the firm and the audit client.
  - Refined drafting to reflect a balanced position in light of the IESBA’s mixed views on whether the Code should include a “sign-post” in Section 520 to prompt firms to refer to Section 600 *Non-Assurance Services* when assisting an audit client through the sale and licensing of technology.
- (b) Within Subsection 606, *Information Technology Systems Services*:
  - Revised paragraph 606.4 A2 in response to IESBA views that operating, maintaining, monitoring or updating IT systems services does not usually create a threat to independence as long as no management responsibility is assumed (i.e., the NAS does not pertain to IT systems services that relate to internal controls over financial reporting; or generate information forming part of the accounting records or financial statements).
  - Reversed the prohibition on operating, maintaining, monitoring or updating IT systems services to all audit clients in light of the IESBA views that it might not be reasonable without considering the impact on small-medium practitioners (SMPs). Added paragraph 606.4 A4 which prohibits IT systems services that might create a self-review threat for PIE audit clients.
  - Added paragraph 606.3 A1 to clarify that the prohibition on hosting services does not extend to collecting and retaining data for a permissible NAS.

**Overview of Recommendations from Technology Phase 1 Report**

*(Adapted to reflect revisions arising from Role and Mindset and NAS projects)*

Topic	Recommendation
1. The Critical Role of Ethics and Professional Judgment	<ul style="list-style-type: none"> <li>Consider adding new application material in Part 1 of the Code to more clearly highlight a broader societal role for professional accountants in promoting ethical behavior as a critical, consistent foundation for businesses, firms and other organizations, particularly when developing and using technology.</li> </ul>
2. Complexity of the Professional Environment	<ul style="list-style-type: none"> <li>Consider revising the Code to more effectively deal with the threats created by the complexity of the professional environment in which professional accountants perform their professional activities.</li> </ul>
3. Suitability of the Fundamental Principles for the Digital Age	<ul style="list-style-type: none"> <li>Consider expanding the Code to expressly state the professional accountant's responsibility to be transparent, and provide factors to be considered in determining 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).</li> </ul>
4. Suitability of the Fundamental Principles for the Digital Age	<ul style="list-style-type: none"> <li>To the extent that it is not already covered in the <u>revisions arising from the Role and Mindset project</u>, consider addressing the concept of accountability in the Code in a more explicit manner by:                             <ul style="list-style-type: none"> <li>– Including new application material to prompt the professional accountant willingness to accept responsibility, especially</li> <li>– Highlighting the professional accountant's responsibility in light of the increasing use of external experts and intelligent agents.</li> <li>– Including explicit references to technology as appropriate in the requirements and application material relating to relying on the work of others when preparing and presenting information (i.e., Section 220).</li> </ul> </li> </ul>
5. Suitability of the Fundamental Principles for the Digital Age	<ul style="list-style-type: none"> <li>Consider revisions to modernize the provisions relating to confidentiality (i.e., Subsection 114) in light of the increased availability and use of personal and other sensitive data.</li> <li>Emphasize the need to actively protect information.</li> <li>Provide guidance to assist professional accountants give appropriate consideration to privacy-related matters.</li> </ul>
6. Enabling Competencies and Skills	<ul style="list-style-type: none"> <li>To the extent that it is not already covered in the <u>revisions arising from the Role and Mindset project</u>, consider adding new application material to highlight the importance of professional or "soft" skills and provide examples of the emergent technical skills needed by professional accountants in the digital age.</li> </ul>
7. Auditor Independence	<p>To the extent that it is not already covered in the <u>revised NAS provisions</u>:</p> <ul style="list-style-type: none"> <li>Consider whether the provisions relating to Business Relationships (i.e., Section 520) should include a cross-reference to Revised Section 600 to prompt firms to apply the NAS provisions in identifying, evaluating and addressing threats to independence created by:                             <ul style="list-style-type: none"> <li>– The sale or licensing of technology applications to audit clients; and</li> <li>– The use of an audit client's technology tool in the delivery of NAS to another client.</li> </ul> </li> <li>Consider further technology-related refinements to the revised NAS provisions (i.e., Revised Section 600), in particular subsection 606 (Information Technology Systems Services).</li> </ul> <p>In relation to the concept of an "office," consider whether the Code (e.g., Section 510) should be revised to better capture the threats to independence that might be created by the use of modern communication technologies. 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.</p>