Agenda Item 7-A

Technology Project – Draft Explanatory Memorandum (EM)

Contents

I.   Introduction

1.   This memorandum provides background to, and an explanation of, the proposed technology-related enhancements to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code).

2.   [The IESBA approved the proposed changes for exposure at its December 2021 meeting.]

II.   Background and Overview

A.   Project Objective and Scope

3.   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 Code to determine technology-related enhancements that are necessary to ensure that the Code remains relevant and fit for purpose in response to the transformative effects of major trends and developments in technology on the accounting, assurance and finance functions.

4.   The Technology Project was approved in March 2020,[1] and has been informed by various inputs to date, including:

(a)   Phase 1 Report developed by the 2019 Technology Working Group[2] ('Report') and approved by the IESBA in December 2019. The Report was issued in February 2020 and 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 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."[3] However, 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 1).

(b)   Stakeholder responses to two global technology surveys 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

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[1]   The IESBA approved the Technology Project Proposal in March 2020.

[2]   The 2019 Technology Working Group comprised Trish Mulvaney, IESBA Member (Chair), Greg Driscoll, IESBA Technical Advisor, Brian Friedrich, IESBA Member, Hironori Fukukawa, IESBA Member, Myriam Madden, IESBA Member.

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

be addressed by the Technology Task Force.[4]

(d)   Continued stakeholder input, including from over 50 targeted outreach events or meetings involving a broad range of stakeholder groups and geographies,[5] the IESBA's Consultative Advisory Group (CAG), the IESBA-National Standard Setters Liaison (NSS) Group, IFAC's Forum of Firms (FoF) and Small-Medium Practices Advisory Group (SMP AG), and monitoring group members i.e. the International Organization of Securities Commissions Committee 1 Auditing Subcommittee (IOSCO C1 AuSc) and International Forum of Independent Audit Regulators Standards Coordination Working Group (IFIAR SCWG).

(e)   Numerous rounds of IESBA deliberations[6] starting June 2020 in the course of which the IESBA considered the seven recommendations proposed in the Report (Appendix 1) and whether some of the concepts underlying the recommendations are already inherent in the fundamental principles of the Code, as revised by the Role and Mindset project, the outcome of which will become effective in December 2021.

B.   About the Proposed Enhancements

5.   In [considering/ approving] the proposed Technology-related enhancements, the [Task Force/ IESBA] reviewed the entire Code, including the independence provisions. The [Task Force/ IESBA]'s proposed enhancements are to the most current version of the Code ("extant Code"), i.e., including all revisions arising from projects finalized as of December 2020. The 2021 IESBA Handbook includes all such revisions.[7]

Recently Issued Pronouncements that Apply in Technology-Related Circumstances

6.   The technology-related proposals take account of the approved changes to the Code, including those arising from the Role and Mindset project, to Sections 100, 110, 120, 200 and 220. For example:

- Paragraph 113.1 A2 notes that maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and ***technology-related*** developments.

- Paragraph 110.1 A1 acknowledges that a PA's exercise of professional or business judgment can be compromised by undue influence of, or undue reliance on, individuals, organizations, ***technology*** or other factors.

- Paragraph 120.12 A2 includes new guidance to highlight that conscious or unconscious ***bias*** affects the ***exercise of professional judgment*** when identifying, evaluating and addressing threats to compliance with the fundamental principles. In addition, examples of bias are

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[4]   See pages 7-8 of the NAS Basis for Conclusions.

[5]   Refer to Appendix 2 to sight the list of outreach activities relating to technology.

[6]   Aside from the IESBA's quarterly plenary sessions, the IESBA deliberations included two rounds of IESBA out-of-session feedback in August and October 2021.

[7]   The 2021 edition of the IESBA Handbook is accessible on the IESBA Code Webpage and IFAC's recently launched e-International Standards and incorporates:

- The revisions to Part 4B of the Code which became effective in June 2021.

- The revisions arising from the Role and Mindset project that will become effective in December 2021.

- The revisions to the Code that will become effective in December 2022 relating to: (i) the objectivity of an engagement quality reviewer and appropriate reviewers, (ii) non-assurance services (NAS); (ii) and fees.

provided. Most relevant is ***automation bias***, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.

- Paragraph 120.5 A1 introduces the concept of ***having an inquiring mind[8]*** as a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the CF.

- Paragraph 120.13 A3 introduces the concept of ***organizational culture*** which explicitly recognizes that PAs have a role in promoting ethical behavior and culture in their organizations.

7. The technology-related proposals also build on the NAS revisions which introduced technology relevant changes to the Code. For example, the NAS revisions introduced a prohibition on services provided to PIE audit clients involving designing or implementing ***IT systems*** that (a) form part of the internal control over financial reporting, or (b) generate information for the client's accounting records or financial statements.

C.   Highlights of Proposed Technology-related Enhancements

8. The proposed technology-related enhancements to the extant Code have been developed on a principles-based approach to ensure that the Code will address evolving developments and remain relevant and fit for purpose. In particular, the proposals cover the following:

Enhancements to the Fundamental Principles (FPs) and Conceptual Framework (CF)

- Expand on current guidance as revised by the Role and Mindset project in Part 1 of the extant Code to acknowledge further technology-related considerations in describing the FPs and other considerations when applying the CF for:

  o Professional Competence & Due Care (Section 113) – the proposals highlight the 'softer' professional skills needed to serve a PAs client or employing organization with professional competence in the digital age, and emphasize that PAs need to provide sufficient information about a service or activity to enable the recipient to understand the implications of any limitations inherent in the service or activity.

  o Confidentiality (Section 114 and Glossary) – the proposals explain how PAs might maintain confidentiality over entire data governance lifecycle and provides a definition of what is "Confidential Information".

  o Organizational Culture (Section 120) – the proposals recognize that public trust is driven in part from a PAs ethical behavior in professional or business relationships, which includes dealings with technology-related facts and circumstances.

- Provide new application material in Section 120 to explain how to identify complex circumstances, why that is an important consideration when applying the CF, and to highlight the actions a PA might take to manage or mitigate such circumstances.

- Identify considerations in Sections 200 and 300 that might assist PAs to identify threats to the CF when the output from technology is relied upon.

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8   Paragraph 120.5 A1 states that "Having an inquiring mind involves: (a) considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and (b) being open and alert to a need for further investigation or other action."

- Include application material in Sections 220 and 320 to assist PAs in determining whether relying on or using technology is reasonable.

Enhancements to the Independence Provisions

- Expand on the current guidance in Part 4A of the extant Code as revised by the NAS project:

Section 600 Non-assurance Services

  o Clarify that the NAS provisions apply in circumstances where technology is used by a firm or network firm to provide a NAS, and where a firm or network firm sells or licenses technology to an audit client and that technology is developed or designed by, or incorporates the expertise or judgment from, the firm or network firm.

  o Add a new factor relevant when identifying the different threats that might be created by providing a NAS to an audit client that explicitly takes into account the client's dependency on the service, including the frequency with which the service will be provided (i.e., technology might enable continuous insights provided from a NAS).

Subsection 606 IT Systems Services

  o Expand the scope of IT systems services beyond design and implementation.

  o Provide new examples of IT system services that involve an assumption of management responsibility.

  o Provide new examples of IT system services that might create a self-review threat.

Section 400 and Subsection 601 Accounting and Bookkeeping Services

  o Emphasize that regardless of the nature or extent of technology used in performing a service or activity (i.e., it does not matter if the technology-enabled service is automated, routine or mechanical), the prohibition on assuming management responsibility is still applicable.

  o Explain that automated services do not necessarily meet the description of "routine or mechanical" as revised by the NAS project, and provide new guidance that prompts the PA to consider how the technology functions and whether the technology is based on expertise or judgment attributable to the firm or a network firm.

Sections 520 Business Relationships and 600 Non-assurance Services

- Provide a new example of when technology jointly developed by a firm or a network firm and an audit client creates a close business relationship.

Part 4B Independence for Assurance Engagements Other than Audit and Review Engagements

- Align the related enhancements to the independence provisions for assurance engagements other than audit and review engagements, specifically noting that such provisions apply to

assurance on an entity's non-financial information such as environmental, social and governance (ESG) disclosures.

D.   Interactions with IESBA Work Streams

Input from the Technology Working Group

9.   The April 2021 IESBA Technology Update explains that the IESBA has established a dedicated Technology Working Group intended to:

- Undertake fact finding to identify and assess the potential impact of technology developments[9] on the accounting profession in relation to ethics and independence. The IESBA will consider a preliminary draft of the Technology Working Group's final report in June 2022, and it is anticipated that the report will be finalized by September 2022.

- Develop or facilitate the development of technology-related thought leadership and other materials in relation to ethics and independence for professional accountants (PAs) and the wider stakeholder community.

10.   The Technology Working Group has provided overarching comments and suggestions on the draft ED which have been outlined and considered in detail within Section III of this EM.

Coordination with other workstreams

11.   When the IESBA approved the NAS revisions to the Code in December 2020, the IESBA concluded[10] that technology-specific matters should be addressed as part of the Technology project. Section III of this EM explains how the proposals have addressed the matters identified by the NAS project.

E.   IAASB-IESBA Coordination Matters

12.   In developing the proposals, the IESBA coordinated with the IAASB so that the existing alignment and interconnectivity between the two sets of standards could be preserved. For example, steps have been taken to ensure that the proposed enhancements are consistent with the terms and concepts in the IAASB's ISAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, International Standards on Quality Management series, and any upcoming technology-related changes to its other projects.

III.   Significant Matters – Fundamental Principles (Parts 1 to 3 of the Code)

A.   Technology-related Considerations When Applying the CF

13.   The proposals introduce examples of ethical considerations that are relevant for PAs when they encounter technology-related facts and circumstances. Paragraphs 200.6 A2 and 300.6 A2, contain new application material relevant to identifying threats when PAs rely upon the output from technology.

14.   This new application material led to questions about whether the considerations are relevant just to identifying threats or to both identifying threats and evaluating the level of such threats. The [Task Force/ IESBA] determined that:

- The use of technology is a specific circumstance that might create threats to compliance with

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[9]   In areas beyond artificial intelligence (AI), big data, and data analytics, such as blockchain, cybersecurity, and cloud computing.

[10]   Paragraphs 102, 103, 124 and 125 of the NAS Basis for Conclusions

the FPs. The application material is intended to guide PAs to think about considerations that are appropriate when identifying threats arising from the use of the output from technology.

- The binary nature of the bulleted considerations in the application material aligns better to the identification of threats, rather than to the evaluation of threats. For example:

    o Whether an understanding of how the technology functions is available.

    o If the technology is not appropriate for the purpose intended, then it should not be used by the PA.

    o If the PA does not have the professional competence to understand, use and explain the output from the technology, then the PA is not the appropriate person to use the technology – and should not use it.

    o If the organization or firm relies on technology that: (i) incorporates the expertise or judgement of the organization, or (ii) has been designed or developed by the organization or firm, then that might create a self-review or self-interest threat.

- The appropriate location for such application material is in Part 2 and 3 of the Code as it will prompt PAs in business and in public practice to consider such matters before using particular types of technology, in addition to applying the CF as described in Section 120. The [Task Force/ IESBA] had deliberated whether such application material might be located within Section 120 but determined that doing so would compromise the building blocks approach, diverge from the structure of the Code, and weaken the foundation laid by the CF in Section 120 by 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).

B.   Determining Whether the Reliance On, or Use Of, Technology is Reasonable

15.   The proposals introduce factors that are relevant to PAs when determining whether reliance on, or use of, technology is reasonable - see new application material in paragraphs 220.7 A2 and 320.10 A2.

16.   The application material raised questions about whether it is feasible for all PAs in business to be able to determine whether the reliance on technology is reasonable. An example was given of where "entry level" PAs in business might just be given data and technology to perform a task without the ability to obtain necessary information to determine whether such reliance on technology is reasonable. To address this, the [Task Force/ IESBA] introduced application material in paragraph 220.7 A3 to acknowledge that a PA's position in an employing organization might impact that person's ability to obtain the necessary information required to determine whether reliance on the work of others or on technology is reasonable.

C.   Consideration of "Complex Circumstances" When Applying the CF

17.   Responsive to the views of 82% of respondents to the survey on *Technology and Complexity in the Professional Environment*, the [Task Force/ IESBA] developed new application material relating to the implications of complex circumstances. Paragraphs 120.13 A1 to A3 contain material which:

- Recognizes that complex circumstances might increase the challenges of applying the CF - but is not a new threat per se.

- Describes the facts and circumstances that increase the challenges in applying the CF in complex circumstances.

- Provides examples of actions that might help PAs manage and mitigate the challenges arising from such circumstances.

18. The [Task Force/ IESBA] deliberated aspects of the application material, including whether:

- The terms used in describing the facts and circumstances that increase the challenges in applying the CF in complex circumstances (i.e., "elements that are uncertain", "multiple variables" and something that is "interconnected or interdependent") will be understood by readers.

- 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.

Describing Complex Circumstances

19. In describing the facts and circumstances that that increase the challenges of applying the CF in complex circumstances, the [Task Force/ IESBA] determined that "facts and circumstances" governs: "elements"; "multiple variables and assumptions"; and something that is "interconnected or interdependent". For example, the "facts and circumstances involve…":

- "…elements" – an example of an element might be the likely direction of future interest rates.

- "…that are uncertain" – an example of an uncertainty in relation to the likely direction of future interest rates is whether that jurisdiction faces inflation or stagflation.

- "…multiple variables and assumptions" – examples include variables and assumptions such as:

  o How stable is the political environment?

  o Will there be changes of government or leadership?

  o Will there be a trade war?

- "…are interconnected or interdependent" – highlights the fact that such items interact with each other making the analysis of the situation multi-faceted and inherently unstable, unpredictable and unreliable.

Difference between "Complicated" and "Complex" Circumstances

20. The [Task Force/ IESBA] considered the risk of a PA incorrectly identifying a complicated circumstance as complex, or incorrectly identifying a complex circumstance as complicated. In reflecting on the broad range of examples to characterize "complexity" provided by survey respondents, and the fact that 'complex' and 'complicated' are used interchangeably, the [Task Force/ IESBA] anticipates that some PAs might turn to the new application material on complex circumstances whenever 'unclear', 'difficult', 'complicated' or 'complex' circumstances are

encountered. In this regard, the [IESBA/ Task Force] determined that there will not be a downside to a PA considering the actions to manage complex circumstances **in addition to applying the CF**.

21. The [Task Force/ IESBA] noted views expressed that "failing to distinguish between complicated and complex elements, and therefore selecting the wrong tools and approaches for the situation, will result in suboptimal decision-making. For example, choosing processes to find a discrete solution rather than focusing on **managing dynamic elements**. If such decisions involve navigating complex ethical challenges, the consequences of failing to make the appropriate distinction can be particularly harmful."[11] The [Task Force's/ IESBA's] current thinking is that this distinction between complicated and complex is already dealt with in the application material in paragraph 120.13 A2:

    • The *dynamic* nature of a complex circumstance is illustrated is reflected in "facts and circumstances that involve *elements* that are *uncertain* and *multiple variables and assumptions* which are *interconnected and interdependent*". This description differs from the predictable nature of complicated circumstances which suggest a discrete solution.

    • The approach to *managing* the dynamic nature of a complex circumstance is reflected in the lead-in to paragraph 120.13 A3 which states that "The evolving interaction of such variables and assumptions need to be managed as they develop." The list of actions contained in the paragraph also differs from providing well-established methodologies and templates to solve a complicated circumstance.

22. The [Task Force/ IESBA] is of the view that the distinction between "complicated" and "complex" can be elaborated in other materials that are non-authoritative. It is noted that this matter is discussed in a June 2021 thought leadership paper, titled *Ethical Leadership in an Era of Complexity and Digital Change* that benefited from the input of the Technology Working Group.

Broad Applicability of Complex Circumstances and Whether Such Circumstances are New

23. The [Task Force/ IESBA] acknowledges that complex circumstances have always existed and are not a new phenomenon specific to technology. Rather, the digital age has increased the interconnectedness of social, economic, and geopolitical systems; which is a complex circumstance that PAs must now address.

24. Cognizant that this is a Technology project, the [Task Force/ IESBA] considered whether the example of complex circumstances should be specific to technology, for example, to:

    • Highlight that the use of machine learning based AI models is complex because the learning is dependent on multiple data inputs which collectively impact the machine learning in uncertain ways that might render the output unpredictable (i.e., meeting the description in paragraph 120.13 A2). In particular, the volume of data inputs that drive the pace of machine learning might render it a "black box" scenario and might impact a PA's ability to keep up with understanding and explaining the AI outputs.

    • Emphasize why the actions listed in paragraph 120.13 A3 are important to manage the complexity of AI outputs. For example, monitoring any developments or changes in the AI outputs and consulting with experts might enable the PA to assess the reasonableness of such outputs before a "black box" scenario is created.

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11   See June 2021 Thought Leadership Paper 1, *Ethical Leadership in an Era of Complexity and Digital Change,* pages 3 to 4.

25. To ensure that the Code remains relevant and fit-for-purpose, the [Task Force/ IESBA] determined not to restrict the provisions in relation to complex circumstances to technology examples, as such circumstances arise in relation to the execution of the professional activities generally. In arriving at this conclusion, the [Task Force/ IESBA] was mindful of the plethora of non-technology examples pertaining to complex circumstances provided by survey respondents,[12] including rapidly changing laws and regulations with differing public interest angles from a jurisdictional versus global perspective.

D.   Professional Competence and Due Care

26. Building on the Role and Mindset revisions, the [Task Force/ IESBA] believes that it will be beneficial to explicitly recognize the non-technical professional skills needed by PAs in the digital age. In doing so, the [Task Force/ IESBA]:

- Considered the recently revised International Education Standards (IESs) that came into effect on January 1, 2021. The IESs already reflect the increasing demand for accountants to be skilled in information and communications technologies whilst further emphasizing professional skepticism skills and behaviors.

   In addition, interpersonal, communication, and organizational skills are highlighted in IES 3: Professional Skills.[13]

- Avoided relating such skills to technology-related circumstances – recognizing that they apply to the execution of professional activities generally and are increasingly regarded as critical for the future-ready accountant.

- Avoided the use of vague terms trending in the self-improvement sphere such as "growth mindset."

- Avoided the duplication of principles and concepts already introduced by the Role and Mindset project such as "Responsibility to Act in the Public Interest", "Having an Inquiring Mind", and "Exercising Professional Judgement." In this regard, the [Task Force/ IESBA] determined that

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12 Paragraphs 7 and 8 of the Summary of Technology Survey Results

13 The level of proficiency for "Interpersonal and Communication Skills" as specified by IES 3 are for PAs to:

- Demonstrate collaboration, cooperation and teamwork when working towards organizational goals.

- Communicate clearly and concisely when presenting, discussing, and reporting in formal and informal situations.

- Demonstrate awareness of cultural and language differences in all communication.

- Apply active listening and effective interviewing techniques.

- Apply negotiation skills to reach solutions and agreements.

- Apply consultative skills to minimize or resolve conflict, solve problems, and maximize opportunities.

- Present ideas and influence others to provide support and commitment.

The level of proficiency for "Organizational Skills" as specified by IES 3 are for PAs to:

- Undertake assignments in accordance with established practices to meet prescribed deadlines.

- Review own work and that of others to determine whether it complies with the organization's quality standards.

- Apply people management skills to motivate and develop others.

- Apply delegation skills to deliver assignments.

- Apply leadership skills to influence others to work towards organizational goals.

[IES 4: Professional Values, Ethics, and Attitudes](#)[14] and the remainder of the specific learning outcomes in IES 3 paragraph 7: intellectual skills (such as critical thinking, adaptability), and personal skills (such as commitment to lifelong learning) were already addressed by the Role and Mindset project.

- Considered input from representatives of IFAC's International Panel on Advancing Accountancy Education (IPAE) who supported the proposals, but would prefer a reference to "IESs or jurisdictional equivalent education standards" to be incorporated in the Code.

Including an Explicit Reference to the IESs in the Code

27. The [Task Force/ IESBA] carefully considered an option that was explored in the development of Recommendation 6 of the [Phase 1 Report](#) to include a reference to the IESs within the Code (i.e., Section 110, *Fundamental Principles*, Subsection 113, *Professional Competence and Due Care*)*.* For example, such a reference might state:

    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.

28. As part of its deliberations, the [Task Force/ IESBA] considered the following:

- Responsive to Recommendation 6 of the Phase 1 report,[15] the proposals include application material to highlight the important of profession or "soft" skills and provide examples of emergent skills in the digital age in paragraph 113.1 A1. This material builds on the Role and Mindset revisions.

- The Phase 1 Report noted that referring to the IESs in the Code might not be the most suitable approach given that the IESs are addressed to IFAC member bodies instead of individual PAs.[16]

- IFAC's [Statement of Membership Obligations (SMOs)](#), which requires all professional accountancy organizations (PAOs) who are member bodies of IFAC to comply with the SMOs, has been in effect for close to a decade. In particular, this includes SMO 2 requiring compliance with the IESs and other pronouncements issued by the International Accounting Education Standards Board (IAESB) (now defunct).

- While IFAC SMO 2 requires PAO members to comply with the IESs, it also recognizes that IFAC member bodies operate under different national legal and regulatory frameworks and are comprised of professionals working in different sectors of the accountancy profession.

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[14]   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

[15]   Recommendation 6 of the Phase 1 Report states "TWG recommends that the IESBA 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."

[16]   See page 21 of the Phase 1 Report.

Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements of SMO 2.[17]

In this regard, the [Task Force/ IESBA] observed that only 27 out of 134 jurisdictions have adopted the IESs (see IFAC's Global Impact Map as of November 2021). This is in comparison to 80+ jurisdictions that have either adopted or committed to adopt the revised and restructured Code.[18]

- IFAC's new approach to advancing accountancy education (after the IAESB ceased operation in 2019), which, among other matters:

  o Plays to IFAC's comparative advantages—natural facilitator, trusted intermediary, global knowledge sharing platform, and influential voice—in an agile, effective, and efficient manner, making optimum use of resources.

  o Leverages the work of IFAC member organizations and others to address evolving accountancy education needs.

  o Involves promoting the adoption of the IESs and supporting its implementation by capacity building, thought leadership and commissioning research.

- The recently issued International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Review of Financial Statements, or Other Assurance or Related Services Engagements* which deals with the hiring, developing and retaining personnel and personnel competence and capabilities of individuals assigned to the engagement. In particular, paragraphs A88 and A89 state that:

  "Competence is the ability of the individual to perform a role and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values and attitudes. Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience or coaching of less experienced engagement team members by more experienced engagement team members.

  Law, regulation or professional standards may establish requirements addressing competence and capabilities, such as requirements for the professional licensing of engagement partners, including requirements regarding their professional education and continuing professional development."

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[17] Paragraphs 5 and 6 of SMO 2 state that where IFAC member bodies have direct responsibility, they shall implement all requirements of SMO 2. Where IFAC member bodies have no responsibility for this area they shall use their best endeavors to (a) encourage those responsible for the requirements to follow SMO 2 in implementing them; and (b) assist in the implementation where appropriate.

[18] The IFAC's Global Impact Map is maintained by IFAC and provides an indicative benchmark of adoption status for international standards. As of November 2021, the Global Impact Map notes that:

- 61 jurisdictions have already completed their adoption process for the revised and restructured Code (i.e., the 2018 edition of the Code).

- 70 jurisdictions adopt the International Financial Reporting Standards (IFRSs).

- 83 jurisdictions adopt the International Auditing Standards (IASs).

29. The [Task Force/ IESBA] observed that the ISQM 1 paragraph A88 competencies of "Technical Competence", "Professional Skills", and "Professional Ethics, Values and Attitudes" appear to align with the titles of IES 2, 3 and 4, there is not an explicit reference to the body of IESs in the IAASB's QM standards.

30. Consistent with the IAASB's approach for ISQM 1, the proposals set out in the ED do not explicitly refer to the IESs. However, the terminology in the Code is aligned with the terminology utilized in the IESs. Furthermore, the extant Code already highlights a PA's obligation to identify the relevant applicable professional competency standards and resources to upskill oneself:

- Paragraph R113.1 already requires a PA to:

    (a) "attain and maintain professional knowledge and skills…based on ***current technical and professional standards and relevant legislation***" and

    (b) "act diligently and in accordance with ***applicable technical and professional standards***".

- Paragraph 113.1 A2 further explains that "***continuing professional development*** enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment".

31. The [Task Force's/ IESBA's] current thinking is that it would be inappropriate to incorporate an explicit reference to the IESs in the Code, given that:

- As noted in the Phase 1 Report, the IESs are addressed to IFAC member bodies instead of individual PAs.

- The majority of jurisdictions (107) apply their own local equivalent education standards.

- The potential perception by IESBA's stakeholders that the IESBA is advocating for, or requiring, the adoption of the IESs.

- The importance of coordinating with the IAASB – Any proposal to include an explicit reference to the IESs in the Code should be explored in conjunction with the IAASB to ensure consistency in approaches towards "competence".

- IESs are not new to IFAC's member bodies – jurisdictions have had ample time to consider the adoption and implementation of the IESs, or to consider the IESs in developing their own local equivalent education standard – since SMO 2 has been in effect since January 1, 2013.

32. The [Task Force/ IESBA] is expressly seeking stakeholder views on this matter to inform the finalization of its proposals (see Q4).

E. Confidentiality

33. Proposed paragraph 114.1 A1 prompts PAs to actively consider the confidentiality of information across the entire data governance cycle. In this regard, a proposed definition of "Confidential Information" has been included in the Glossary of the extant Code. The [Task Force/ IESBA] believes

its proposals are particularly relevant in light of today's data driven world and the ease with which data is accessible. Proposed refinements to paragraph 114.1 A3 are intended to enhance the flow of Section 114 and to modernize the characterization of means of communications.

34. The [Task Force/ IESBA] deliberated whether the proposed definition of "Confidential Information" is overly encompassing of all possible scenarios in which information might be obtained and determined an approach involving a proposed definition of "Confidential Information" which establishes a threshold – namely that information that is not in the public domain is confidential, which is consistent with the general approach of defining confidential information in legal contracts. The Task Force noted that introducing a qualifying parameter to this threshold runs the risk of introducing varying levels of subjectivity as to what constitutes confidential information or that the obligation depends on the capacity in which the PA receives the information.

F.   Considering Terminology From Other AI Ethics Guidance

35. The [Task Force/ IESBA] considered the Technology Working Group's recommendation that terminology (e.g., accountability, transparency, explainability and privacy) that is already included in many different AI ethics guidelines currently available should be included in the Code. It was noted that in finalizing the Phase 1 Report, the then 2019 Technology Working Group had compared the common principles used in six different AI Ethics guidelines[19] to the fundamental principles in the Code and concluded that generally, the Code currently provides high level, principles-based guidance for most technology-related ethics issues that PAs and firms might encounter.

36. The Technology Working Group's view is that not explicitly including such terminology in the Code represents a missed opportunity for the IESBA, and for PAs more generally, because it is seen as important PA guidance and also that without reference to these pervasive concepts, regulators might question the profession's commitment to ethical behavior in the emerging area of AI.

37. The [Task Force/ IESBA] analyzed the concepts underlying such terminology and determined that those concepts are sufficiently addressed in the Code.

38. Specifically, the Task Force considered the following definitions of such terminology as set out in certain AI ethics guidelines:

- Accountability –

  o   People should be accountable for AI systems.[20]

  o   Organizations and individuals developing, deploying or operating AI systems should be held accountable for their proper functioning in line with its other principles such as inclusive growth, sustainable development and well-being, etc.[21]

- Transparency –

  o   AI systems should be explainable.[19]

  o   Transparency reinforces trust, and the best way to promote transparency is through

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[19] Microsoft, IBM, European Commission, Organization for Economic Cooperation and Development (OECD), Australian Government Consultation Paper

[20] Microsoft AI principles https://www.microsoft.com/en-us/ai/responsible-ai?activetab=pivot1%3aprimaryr6.

[21] OECD AI principles OECD Principles on Artificial Intelligence - Organisation for Economic Co-operation and Development

disclosure. [22]

- o There should be transparent and responsible disclosure around AI systems to ensure that people understand AI-based outcomes and can challenge them.[20]

- o To be transparent about how and when AI is being used, starting with a clear user need and public benefit.[23]

- Explainability –

  - o Good design does not sacrifice transparency in creating a seamless experience.[21]

  - o Provide meaningful explanations about AI decision making, while also offering opportunities to review results and challenge these decisions.[22]

- Privacy –

  - o AI systems should be secure and respect privacy.[19]

  - o AI systems must prioritize and safeguard consumers' privacy and data rights.[21]

  - o AI systems must function in a robust, secure and safe way throughout their life cycles and potential risks should be continually assessed and managed.[22]

39. The Task Force observed that:

- There is no standardized definition arising from the common terminology used in various AI ethics guidelines.

- [A review of 160 AI ethics guidelines](#) from non-profit organization AlgorithmWatch summarized that:

  *"The majority of the AI ethics guidelines examined are limited to vague formulations, and in most cases there are no enforcement mechanisms at all. Often it is a matter of weaving together principles without a clear view on how they are to be applied in practice. Thus, many AI ethics guidelines are not suitable as a tool against potential harmful uses of AI-based technologies and will probably fail in their attempt to prevent damage. **The question arises whether guidelines that can neither be applied nor enforced are not more harmful than having no ethical guidelines at all. AI ethics guidelines should be more than a public relations tool for companies and governments."***

- Denmark was the first country to introduced mandatory company legislation on data ethics which requires companies with a data ethics policy to provide information on compliance, while companies without a data ethics policy must explain why they do not have a policy – much like they do today on corporate social responsibilities (CSR).[24] In this regard, one journalist further noted that "the result of such legislation will effectively compel companies to create and define

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22   IBM AI principles https://www.ibm.com/artificial-intelligence/ethics.

23   Government of Canada AI principles [Responsible use of artificial intelligence (AI) - Canada.ca](#)

26   The purpose of the sub-group is to further enhance cooperation and consistency in audit oversight in the European Union regarding the adoption and use of standards on professional ethics, internal quality control of audit firms and auditing and to contribute to technical examination of international auditing standards, including the processes for their elaboration, with a view to their adoption. [Members](#) consist of representatives (from their respective Audit Oversight Board) of the CEAOB members states.

data ethics statements that concretely tie transparency, explainability, and, hopefully, bias mitigation into their company brand".[25]

40. The [Task Force/ IESBA] found that the concepts underlying such terminology are addressed in the extant Code in the following areas:

- Accountability – Based on the underlying substance of this term from the AI ethics guidelines above, the [Task Force/ IESBA] view is that the "accountability" of the PA in respect of technology is sufficiently addressed by the proposals to incorporate: (a) considerations relevant to identifying threats to the compliance of the FPs when PAs rely on the output of technology in paragraphs 200.6 A2 and 300.6 A2; and (b) factors relevant to determining whether the use of, or reliance of, technology is reasonable in paragraphs 220.7 A2 and 320.10 A2.

  In arriving at its view, the [Task Force/ IESBA] also reviewed its prior deliberations and stakeholder feedback on the extent of a PA's responsibility to understand what is "under the hood" and how far down the chain of reliance the PA needed to go in order to demonstrate that the reliance is reasonable.

  The [Task Force/ IESBA] is of the view that PAs should have a reasonable awareness and understanding that reliance on the output from technology is appropriate without being expected to be the "expert" in the technology of what is "under the hood." PAs should be comfortable with the output from technology, which is what the proposals in paragraphs 200.6 A2, 300.6 A2, 220.7 A2 and 320.10 A2 emphasize.

- Transparency and Explainability – Based on the underlying substance of these terms from the AI ethics guidelines above, the [Task Force/ IESBA] view is that "transparency" and "explainability" contain similar yet distinct characteristics. The similarity lies in that transparency indicates a level of explainability through disclosure of information, while the distinction lies in the fact that the information disclosed could also involve stating that one cannot explain the technology. In contrast, explainability means that a PA might understand the outputs of technology to the extent that the PA can challenge such outputs.

  The [Task Force/ IESBA] view is that specific bullets in proposed paragraphs 200.6 A2, 300.6 A2, 220.7 A2 and 320.10 A2 address the substance of explainability, including:

  o Whether an understanding of *how* the technology functions is available.

  o Whether the technology is *appropriate for the purpose* for which it is to be used.

  o Whether the PA has the professional competence to *understand*, *use* and *explain* the output from the technology.

  o The PA's ability to *understand* the output from the technology for the context in which it is to be *used*.

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[26] The purpose of the sub-group is to further enhance cooperation and consistency in audit oversight in the European Union regarding the adoption and use of standards on professional ethics, internal quality control of audit firms and auditing and to contribute to technical examination of international auditing standards, including the processes for their elaboration, with a view to their adoption. Members consist of representatives (from their respective Audit Oversight Board) of the CEAOB members states.

In relation to transparency, the [Task Force/ IESBA] view is that the specific bullet in proposed paragraph 120.13 A3 address the underlying substance of transparency:

o Ensuring that the firm or employing organization and, if appropriate, relevant stakeholders are *aware* of the inherent uncertainties or difficulties arising from the facts and circumstances.

To further emphasize the concept of transparency, the [Task Force/ IESBA] has expanded the requirement in paragraph R113.3 by requiring the PA to disclose information:

"…PAs shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities and provide them with *sufficient information to understand* the implications of those limitations".

• Privacy – The [Task Force/ IESBA] determined that the concept of Confidentiality as per the Code's fundamental principles is all encompassing, meaning that it covers privacy too. However, the [Task Force/ IESBA] recognizes that privacy is an important and sensitive issue because it is generally rooted in law, for example, the EU's General Data Protection Regulation (GDPR). The [Task Force/ IESBA] believes that it would be inappropriate to address such a concept in the Code given that it gives rise to varying and contradictory approaches within different jurisdictions.

It is relevant to note that, whilst the extant Code is silent on the specific topic of privacy, the overriding requirement in paragraphs R100.7 to 100.7 A1 applies, namely that "…some jurisdictions might have provisions that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation".

The [Task Force/ IESBA] also observes that the underlying substance of privacy referred t o in the AI ethics guidelines involves AI systems being secure throughout their lifecycle. In this context, it is already sufficiently addressed by the proposal in paragraph 114.1 A1 and the specific bullet in paragraphs 220.7 A2 and 320.10 A2:

o Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the professional accountant taking appropriate action to *secure* such information in the course of its collection, use, transfer, storage, dissemination and lawful destruction.

o The employing organization or firm's *oversight* of the design, development, implementation, operation, maintenance, monitoring or updating of the technology.

G. Ethical Leadership

41. The [Task Force/ IESBA] noted that PAs might be increasingly involved in using, developing or implementing technology. These roles involve dealings with individuals outside the employing organization or firm. Given that ethical behavior is considered to be the cornerstone of public trust, the [Task Force/ IESBA] expanded the extant application material in paragraph 120.14 A3 to prompt PAs to "demonstrate ethical behavior in dealings with business organizations and individuals with which they or their firm or employing organization has a professional or business relationship."

IV. Significant Matters – Independence (Parts 4A and 4B)

A.   Relevance of the Independence Provisions When Selling and Licensing Technology (Sections 520 and 600)

42.   Responsive to the views of 24% of respondents to the survey on *The Impact of Technology on Auditor Independence* who did not think that NAS provisions are relevant when a firm licenses technology that performs a NAS, the [Task Force/ IESBA] developed new guidance to:

- Explicitly recognize that NAS provisions apply regardless of whether the NAS is provided by a firm or a network firm's staff or technology or combination thereof. See paragraph 600.6(a).

   The guidance is intentionally broad. It is intended to encompass all possible ways that a firm or a network firm might perform a NAS, including for example, when a firm's staff uses a third-party technology software to perform the NAS; when a firm's own developed technology performs the NAS in lieu of staff, etc.

- Explicitly recognize that the NAS provisions apply when technology is sold or licensed by a firm or a network firm to an audit client if that technology has been designed or developed by a firm or a network firm or incorporates a firm or a network firm's expertise or judgement. See paragraphs 600.6(b) and 520.7 A1.

   The [Task Force/IESBA] believes that the prompt in paragraph 520.7 A1 is important because the selling and licensing of IT hardware or software may give rise to a broad general business relationship. The reference in section 520 will ensure that users of the Code who look to Section 520 will be encouraged to consider also the provisions of Section 600.

- Add the concept of "sells" to an extant example of a close business relationship where a firm or a network firm distributes or markets the client's products or services, or vice versa. See paragraph 520.3 A2 bullet 3.

- Add an example of a close business relationship arising from arrangements under which a firm or a network firm develops jointly with an audit client, products or solutions that one or both parties sells or licenses to third parties. See paragraphs 520.3 A2 bullet 4.

   <u>Consideration of Additional Examples</u>

   The [Task Force/ IESBA] considered additional examples of close business relationships where firms are selling and licensing software: (a) to their audit clients, who are in turn directly utilizing the technology in the delivery of services to their customers/clients; or (b) from an audit client and directly using the technology in the delivery of services to their clients.

   The [Task Force/ IESBA] determined that if such examples are incorporated, it would require elaboration of the nature of the selling and licensing arrangement so that readers can understand the nature of the firm's interests in that arrangement, and hence moves away from the principles-based nature of the Code.

   In this regard, closeness of the business relationship might depend on a plethora of factors such as (a) the promotion of the use of the technology in marketing or proposal materials provided to the end user, (b) whether the technology is in substance the reason why an end user might elect to use a firm for its service delivery, (c) any branding on output created by the technology and delivered to the end user, and (d) other considerations such as fees received or paid in relation to the use of the software from that arrangement.

The [Task Force/ IESBA] considers, that at a high level and subject to the details of the selling and licensing arrangement, such arrangements might be covered by paragraph 520.3 A2 bullet 2 and welcomes stakeholder feedback on such thinking.

B. Factors That Are Relevant in Identifying, and Evaluating the Level Of, Threats Created by Providing NAS (Section 600)

43. The proposals introduce new application material relevant to identifying and evaluating the level of threats that might be created by providing technology-enabled NAS. In particular, it prompts firms to consider their audit client's dependency on the firm's service provided, including the frequency with which the service will be provided (paragraph 600.9).

44. The [Task Force/ IESBA]'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 (i.e., the client's dependency on the service). Survey respondents also raised this scenario as being increasingly relevant in the digital age as the 'lines' between management responsibility and the firm's service responsibilities might become blurred as technology has enabled the provision of frequent or continuous monitoring or analysis.

C. Automated Services and the Placement of "Routine or Mechanical" (Section 400 and Subsection 601)

45. The NAS project clarified 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 proposal in paragraph 601.5 A2 is intended to remind users of the Code that automated NAS are not necessarily routine or mechanical.

46. The [Task Force/ IESBA] further 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. In this regard, the proposed revision to paragraph 400.14 A1 emphasizes that, regardless of whether technology is used in performing a professional activity for an audit client, the provisions in relation to the prohibition on assuming a management responsibility apply

Placement of "Routine or Mechanical"

47. The [Task Force/ IESBA] considered whether the placement of the application material for "routine or mechanical" was appropriate because 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 Non-Assurance Services Provisions of the Code.*

48. The [Task Force/ IESBA] is of the view that no change is needed at this time. The overarching objective of the [Task Force/ IESBA] is to minimize any unnecessary changes to the revised NAS provisions as that could potentially undermine the revised provisions or adversely impact adoption or implementation.

D. IT Systems Services (Subsection 606)

Expanded Description of the Board Range of Services Comprising IT Systems Services

49. The [Task Force/ IESBA] has proposed an expanded description of IT systems services to highlight the fact that services related to IT systems can extend beyond the design, development and implementation of hard or software systems - see paragraph 606.2 A1 and A2. The [Task Force/ IESBA] notes that the proposal is also responsive to survey respondents who expressed support for the inclusion of new guidance to deal with specifically: (a) collecting, storing and hosting of data; (b) ongoing support, maintenance, and updates of IT systems.

50. The [Task Force/ IESBA] considered whether to define all the terms incorporated in the expanded description of IT systems services but determined that to do so would be inappropriate and, potentially, have a limiting effect.

51. The [Task Force/ IESBA] has defined the term "IT systems services" broadly so that the NAS provisions and the proposed provisions in subsection 606 are applicable to the widest range of IT systems services possible.

Review of Common IT Systems Services for Examples of How a Self-review Threat Might Be Created or Management Responsibility Assumed

52. The proposals in subsection 606 seek to build on the principles and structure introduced by the NAS project. In particular, the [Task Force/ IESBA] has reviewed some common IT systems services to determine whether they should be:

- Prohibited for all audit clients as the service always assumes a management responsibility;

- Added as an example of an IT systems service that might create a self-review threat and thus be prohibited for PIE audit clients; or

- Considered an example of an IT systems service that (a) always creates a self-review threat, or (b) does not usually create a threat.

53. As a result, the [Task Force/ IESBA] determined that the following IT systems services always involve the assumption of a management responsibility (as they are akin to the provision of managed services):

- Arranging facilities to host, or providing services in relation to the hosting of, an audit client's data.

- Managing network security, business continuity or disaster recovery services.

The [Task Force/ IESBA] view is that these services always give rise to an assumption of 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/ IESBA] also considered that the provision of such services by a firm to its audit clients raises questions about independence in appearance.

54. The [Task Force/ IESBA] recognized that although the following IT systems services do not always (i) involve an assumption of management responsibility or (ii) create a self-review threat, such services 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:

- Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems.

- Supporting an audit client's IT systems, including software applications or network performance.

- Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by a firm or a network firm.

55. The [Task Force/ IESBA] considered whether the proposals in subsection 606 would preclude the provision of advice and recommendations in relation to IT systems and] determined that the general principles relating to the provision of advice and recommendations introduced by the NAS project would address the position adequately. See extant paragraphs 600.11 A1, R600.14, R600.16 to 600.17A1.

Withdrawal of Extant Paragraph 606.4 A2 "IT Systems Services That Does Not Usually Create a Threat"

56. The [Task Force/ IESBA] proposes to withdraw subparagraphs (a) and (b) of extant paragraph 606.4 A2 because the subject matter of those subparagraphs is now covered in extant paragraph 606.4 A3 (paragraph 606.4 A2 in Agenda Item 7-C (Mark-Up from Extant Code)).

57. The [Task Force/IESBA] determined that the observation in paragraph 606.4 A2 (c) is no longer appropriate. Initially, this provision was included to address the position where "off-the-shelf" accounting or financial information reporting software comprised retail software packages for direct installation on a desktop computer or laptop. Nowadays, "off-the-shelf" software is likely to be licensed directly from the software provider and some form of tailoring during implementation is typically needed.

58. In those circumstances, the [Task Force/ IESBA] proposes:

- To withdraw the presumption that implementing "off-the-shelf" software does not usually create a threat (extant paragraph 606.4 A2(c)).

- To include such services in the examples of IT systems services that might create a self-review threat.

- To remove the extant qualifier "…if the customization required to meet the client's needs is not significant" to promote consistency in application

The [Task Force/ IESBA] is of the view that a firm or a network firm should consider whether such implementation might create a self-review threat regardless of materiality and the extent of tailoring (i.e., whether it is customization, configuration, or any other form of implementation).

E.   Part 4B of the Code

59. The [Task Force/ IESBA] is proposing to make equivalent revisions to Part 4B, in order to preserve the existing alignment between the language across the Code. The proposals have incorporated the input of the IAASB Staff to ensure alignment with the concepts in ISAE 3000:

- Consideration of hosting and other managed services in the context of assuming management responsibility (paragraph 900.13 A4 and A5).

- Emphasizing that the prohibition on management responsibility applies regardless of extent of technology used by a PA in performing a professional activity (paragraph 900.14 A1).

- Examples of a close business relationship (paragraph 920.3 A2).

- Consideration of the selling and licensing of technology in the context of business relationships and assurance engagements (paragraph 920.6 A1 and 950.5).

- Addition of an example of a self-review threat (paragraph 950.10 A1).

60. Finally, the proposal in paragraph 900.1 is to make it explicit that Part 4B applies to assurance on an entity's non-financial information. The [Task Force/ IESBA] believes that the proposal is a specific and narrow response to respondents to the survey who asked for more guidance to cover non-financial reporting. No further guidance is proposed at this point, recognizing that non-financial reporting is an evolving area being pursued, considered and monitored by all standard-setting boards, including the IESBA.

V. Analysis of the Overall Impact of the Proposed Changes

61. The IESBA believes that the proposals are both relevant and important because the use and impact of technology is one of the most important issues that PAs will face in the current decade. The pervasive nature of technology and its broad, and exponentially growing use, has also been accelerated by the effects of the COVID-19 pandemic.

62. The public interest will be served by having a Code that remains relevant and fit for purpose in response to the transformative effects of major trends and developments in technology on the accounting, assurance and finance functions.

63. Given the nature and extent of the proposed revisions to the Code, the IESBA believes that some of the proposals are of a level that would entail significant changes to the policies and procedures for some stakeholders, including firms and SMPs. Such changes may result in increased costs. Whether there will be additional costs, and the nature and significance of those costs, will depend on the particular circumstances. As with any changes to the Code, firms can expect implementation costs associated with awareness and training initiatives, translation where needed, and maintenance costs in updating their internal policies and methodologies.

VI. Project Timetable and Effective Date

64. The indicative timeline for the Technology project is set out below. This timeline takes into account a 120 day comment period for the Technology ED, recognizing that the proposals cover the entirety of the extant Code and allowing sufficient time for stakeholders to understand the proposals in the context of the and conduct their relevant jurisdictional outreach to inform their responses to the Technology ED.

Indicative Timing	Milestone
May 2022	Closing date for comments to the ED
June 2022	Preliminary 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 |

VII. Guide for Respondents

65. The IESBA welcomes comments on all matters addressed in this ED, but especially those identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

A. Request for Specific Comments

Technology-related Considerations When Applying the Conceptual Framework

1. Do respondents support the proposals in paragraphs 200.6 and 300.6 which set out the thought process to be undertaken when considering whether the use of technology by a PA might create a threat to the fundamental principles? Are there other considerations should be considered?

Determining Whether the Reliance On, or Use Of, Technology is Reasonable

2. Do respondents support the proposals in paragraphs 220 and 320 which provide factors to be considered when relying on, or using, technology? If not, what other factors should be considered?

Consideration of "Complex Circumstances" When Applying the Conceptual Framework

3. Respondents are asked whether they believe that the proposed application material relating to complex circumstances will be helpful to PAs when applying the conceptual framework.

Professional Competence and Due Care

4. Do respondents support the proposal in paragraph 113.1 A1 sets out additional skills needed in the digital age? Do you agree with the [IESBA/ Task Force] position not to include an explicit reference to the IESs in the Code?

5. Do respondents support the proposal in paragraph R113.3 to require PAs to provide sufficient information to its clients, employing organization, or other users of a PAs professional services or activities so that the user understands the implications of limitations inherent in the services or activities?

Confidentiality

6. Do respondents support the proposed revisions to Section 114 *Confidentiality*, including the new proposed definition of Confidential Information?

7. Do respondents agree that "privacy" is an example of a topic that is addressed in law or regulation that professional accountants are already required to comply with in paragraph R100.7 to 100.7 A1?

Considering Terminology in Other AI Ethics Guidance

8. Do respondents support the proposals to emphasize the anticipated outcome of being transparent in paragraph 113.3 A1?

Independence (Parts 4A and 4B)

9. Respondents are asked for views about the proposed revisions to the International Independence Standards, including in relation to:

   (a) The proposed revisions in paragraphs 400.14 A1 and 601.5 A2 relating to "routine or mechanical."

   (b) The additional example of what constitutes a close business relationship for the selling and licensing of technology in paragraph 520.3 A2.

   (c) Whether the proposed revisions in paragraphs 520.7 A1 and 600.6 adequately prompt a PA to understand that the selling and licensing of technology to an audit client could in effect be a NAS and is therefore subject to the provisions of Section 600 and its subsections.

10. Respondents are asked whether they support the proposed revisions to Subsection 606, including:

    (a) The prohibition of services in relation to hosting, network security, business continuity and disaster recovery because they assume a management responsibility.

    (b) The withdrawal of the application material that stated that "implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm does not usually create a threat" (i.e., extant paragraph 606.4 A2).

    (c) The examples of IT system services that might create a self-review threat in subsection 606.

11. Do respondents support the proposed revisions to Part 4B of the Code that are intended to:

    (a) Make it explicit that Part 4B of the Code applies when providing assurance on non-financial information, for example, environmental, social and governance disclosures (see paragraph 900.1)?

    (b) Retain the existing alignment to Part 4A?

B. Request for General Comments

66. In addition to the request for specific comments above, the IESBA is also seeking comments on the

    matters set out below:

    - *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

    - *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.

    - *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment

on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

- *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

Appendix 1 – Overview of Recommendations from Phase 1 Report

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	• 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.
2. Complexity of the Professional Environment	• 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.
3. Suitability of the Fundamental Principles for the Digital Age	• 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).
4. Suitability of the Fundamental Principles for the Digital Age	• To the extent that it is not already covered in the revisions arising from the Role and Mindset project, consider addressing the concept of accountability in the Code in a more explicit manner by: – Including new application material to prompt the professional accountant willingness to accept responsibility, especially – Highlighting the professional accountant's responsibility in light of the increasing use of external experts and intelligent agents. – 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).
5. Suitability of the Fundamental Principles for the Digital Age	• 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. • Emphasize the need to actively protect information. • Provide guidance to assist professional accountants give appropriate consideration to privacy-related matters.
6. Enabling Competencies and Skills	• To the extent that it is not already covered in the revisions arising from the Role and Mindset project, 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.
7. Auditor Independence	To the extent that it is not already covered in the revised NAS provisions: • 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: – The sale or licensing of technology applications to audit clients; and – The use of an audit client's technology tool in the delivery of NAS to another client. • Consider further technology-related refinements to the revised NAS provisions (i.e., Revised Section 600), in particular subsection 606 (Information Technology Systems Services). 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.

Appendix 2 – Targeted Outreach and Events Since Release of Phase 1 Report in February 2020

Stakeholder/ Event	Date	Region
Regulators and Oversight Authorities		
International Organization of Securities Commissions (IOSCO) – Committee 1 Auditing Subcommittee	10/20, 10/21	Global
International Forum of Independent Audit Regulators (IFIAR) – Standards Coordination Working Group	11/21	Global
Committee of European Auditing Oversight Bodies (CEAOB) – International Auditing Standards Subgroup[26]	11/20, 5/21	Europe
US Office of the Comptroller of the Currency	7/21	North America
Government Accountability Office (US GAO) Innovation Lab	11/21	North America
Centre for International Governance Innovation	11/21	North America
Academia		
Rutgers University	5/20	North America
American Accounting Association - Ethics Symposium	7/21	North America
Independent National Standard Setters		
Accounting Professional & Ethical Standards Board (Australia)	8/20	Asia-Pacific
New Zealand Auditing and Assurance Standards Board	9/20	Asia-Pacific
Software Vendors/ Developers/ Professional Accountants in Business		
MindBridge AI	7/21, 11/21	North America
ActiveState	10/21	North America
Verracy	10/21	North America
Those Charged With Governance		
Institute of Corporate Directors	10/21	North America
Asian Corporate Governance Association	11/21	Asia-Pacific
Professional Accountancy Organizations (PAOs), including National Standard Setters		
Chinese Institute of CPAs	4/21	Asia-Pacific

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[26] The purpose of the sub-group is to further enhance cooperation and consistency in audit oversight in the European Union regarding the adoption and use of standards on professional ethics, internal quality control of audit firms and auditing and to contribute to technical examination of international auditing standards, including the processes for their elaboration, with a view to their adoption. Members consist of representatives (from their respective Audit Oversight Board) of the CEAOB members states.

Stakeholder/ Event	Date	Region
Accountancy Europe Technet	6/21	Europe
Interamerican Accounting Association – Technology Commission	6/21	South America
CPA Canada Public Trust Committee and Independence Standing Committee	8/21	North America
Firms		
IFAC Forum of Firms	3/20, 10/20, 11/21	Global
European Group of International Accountancy Networks and Associations	11/20	Europe
KPMG	6/21, 8/21	North America
PwC	7/21	Asia-Pacific
EY	9/21, 11/21	Middle East
Other Multi-Stakeholder Meetings		
IESBA Consultative Advisory Group	3/20, 9/20, 3/21, 9/21	Global
IAASB Technology Working Group	6/20, 8/20, 5/21	Global
IFAC Technology Advisory Group	2/20	Global
IFAC International Panel of Accountancy Education	7/20, 11/21	Global
IFAC Small Medium Practices Advisory Group	11/21	Global
IESBA-National Standard Setters Liaison Group[27]	11/20, 5/21	Global
Institute of Management Accountants	7/21, 11/21	North America
Multi-Stakeholder Outreach Events		

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[27] The IESBA-NSS liaison Group comprises organizations with direct responsibility for promulgating ethics (including independence) standards in Australia, Canada, China, France, Germany, Hong Kong SAR, India, Japan, the Netherlands, New Zealand, the Russian Federation, South Africa, the UK, and the US.

Stakeholder/ Event	Date	Region
Virtual Workshop Event hosted by IFAC	10/20	Global
Virtual Workshop Event hosted by CPA Canada, Institute of Chartered Accountants of Scotland, IFAC	2/21	North America
Virtual Workshop Event hosted by the Saudi Organization for CPAs (SOCPA)	9/21	Middle East