

## Project Proposal— Enhancing the Code in an Evolving Digital Age (March 2020)

### I. Subject

1. Revision of the Code to respond to the transformative effects of major trends and developments in technology on the assurance, accounting and finance functions.

### II. Background

#### IESBA's Strategic Initiative on Technology

2. Digital technologies are transforming the workplace, businesses, economies and societies at a rapid rate. They are impacting the accountancy profession in terms of the types of professional activities undertaken and services provided, as well as the tools and approaches professional accountants (PAs) use in their work.
3. In light of these developments, and following consultation with its Consultative Advisory Group (CAG), the IESBA-National Standard Setters (NSS) liaison group and other stakeholders, the IESBA committed in its [Strategy and Work Plan, 2019-2023](#) to a major strategic initiative on Technology. Through this initiative, the IESBA aimed to gather an understanding of the transformative effects of trends and developments in technology on the assurance, accounting and finance functions, and explore their ethical implications for the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).
4. In December 2018, the IESBA established a Working Group<sup>1</sup> with a mandate to:
  - (a) Identify potential ethical implications of technology developments on the robustness and relevance of the fundamental principles and independence standards, in terms of both challenges to PAs' compliance with requirements under the Code and ways in which technologies could be used to support and enhance compliance;
  - (b) Develop proposed responses to address any identified ethical implications, whether through revisions to the Code or through developing non-authoritative material; and
  - (c) Identify specific outreach and partnership opportunities to share knowledge and to promote the Code as an effective tool for PAs to refer to in addressing ethics issues related to the use and effects of technology on their professional activities.
5. In pursuing its objectives, the Working Group took a phased approach to its work. Phase 1 focused on the two areas of (a) artificial intelligence (AI) and robotic process automation (RPA), and (b) big data and data analytics. This focus reflected the fact that these technological developments are currently the most pervasive and affect the broadest population of PAs.

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<sup>1</sup> In view of the interoperability of the Code with the standards of the International Auditing and Assurance Standards Board (IAASB) and the strategic priority given by both Boards to addressing the developments in technology, the IESBA agreed to coordinate its work in this area with the IAASB. As a result, the IESBA's Technology Working Group is linked to the IAASB's Technology Working Group through the participation of a correspondent member from each Board on the other Board's Working Group.

6. Following fact finding, including a significant program of outreach to stakeholders, the Working Group delivered its report of findings and recommendations to the IESBA in December 2019 (Phase 1 Report).<sup>2</sup> Among the recommendations are a set of potential enhancements to the Code in various areas. These potential enhancements form the basis of this project proposal.
7. Phase 2 of the Technology initiative will involve fact finding on other technologies captured under the broad headings of blockchain, cybersecurity, Internet of Things, cloud-based services, and data governance. Under this phase, the IESBA will also undertake other activities it determines appropriate following further consideration of the Phase 1 report, including the commissioning of non-authoritative material.
8. The Phase 1 report provides a comprehensive overview of the Working Group's fact finding and its analyses of the identified issues.

### **PIOB Identification of Public Interest Issues on IESBA Projects**

9. In its February 3, 2020 update to its list of public interest issues on IESBA projects, the PIOB highlighted that the ethical implications of AI are a public interest issue that the IESBA should address. Specifically, the PIOB commented that as a consequence of the increased use of technology by the larger firms and the lack of guidance, it is in the public interest that the IESBA develops guidance and a framework for evaluating ethical issues and biases when firms use automation and AI to perform audit procedures.
10. More broadly, the PIOB supported prompt attention by the IESBA to develop guidance on ethical issues when audit firms use technology.

## **III. Project Objective, Focus, Scope and Approach**

### **Project Objective, Focus and Scope**

11. The objective of the project is to enhance the Code's provisions in response to the transformative effects of major trends and developments in technology in order to maintain the Code's robustness and relevance as a cornerstone of public trust in the global accountancy profession.
12. The project will address the ethics and independence implications of trends and developments in technology on the assurance, accounting and finance functions, with a focus on the technologies covered by the Phase 1 report, i.e., AI/RPA and big data/data analytics.
13. The scope of the project will encompass:
  - (a) Part 1<sup>3</sup> of the Code;
  - (b) Part 2;<sup>4</sup>
  - (c) Part 3;<sup>5</sup>

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<sup>2</sup> The Phase 1 Report is expected to be published on the IESBA website together with an Update on the Technology initiative by the end of February 2020.

<sup>3</sup> Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework

<sup>4</sup> Part 2 – Professional Accountants in Business

<sup>5</sup> Part 3 – Professional Accountants in Public Practice

- (d) The International Independence Standards (IIS) in Part 4A;<sup>6</sup>
- (e) Any consequential or conforming changes deemed necessary to the sections in Part 4B.<sup>7</sup>

### Project Approach

14. This project will pursue the recommendations for enhancements to the Code as set out in the Phase 1 report. These recommendations are grouped into the following five topics:

- A. BUILDING TRUST – THE CRITICAL ROLE OF ETHICS AND PROFESSIONAL JUDGMENT
  - 1. Within the scope of PAs’ professional duties and responsibilities, consider adding new application material in Part 1 to more clearly highlight a broader societal role for PAs in promoting ethical behavior as a critical, consistent foundation for businesses, firms and other organizations, particularly when developing and using technology.
- B. COMPLEXITY OF THE PROFESSIONAL ENVIRONMENT
  - 2. Consider revising the Code to more effectively deal with the threats created by the complexity of the professional environment in which PAs perform their professional activities. For example, consideration will be given to the following:
    - Revising the description of “intimidation threat” in Section 120<sup>8</sup> to capture a variation of the intimidation threat created by the complexity of certain technology applications or compliance rules.
    - Highlighting the issue of “complexity” under Section 120, in a manner similar to the approach the IESBA has taken in adding application material on bias and organizational culture in the [Role and Mindset Exposure Draft](#) (ED).
    - Modifying the lead-in language to the paragraph<sup>9</sup> of the Code that introduces the five categories of threat so it would read less definitively. Doing so would provide some flexibility as to how PAs can identify and address a threat such as complexity without necessarily having to shoehorn it into one of the five categories of threat.
    - In Sections 200<sup>10</sup> and 300,<sup>11</sup> providing examples of threats, as well as the work and operating environments of employing organizations and firms and the operating environment of clients, that might impact the evaluation of the level of a threat. These examples would focus specifically on technology and the complexity of work environments.
    - Reviewing the Code to expand references to individuals to include machines and intelligent agents as appropriate, for example, in the description of “self-

<sup>6</sup> Part 4A – Independence for Audit and Review Engagements

<sup>7</sup> Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements

<sup>8</sup> Section 120, *The Conceptual Framework*

<sup>9</sup> Paragraph 120.6 A3

<sup>10</sup> Section 200, *Applying the Conceptual Framework – Professional Accountants in Business*

<sup>11</sup> Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

review threat” in Section 120.

C. SUITABILITY OF THE FUNDAMENTAL PRINCIPLES FOR THE DIGITAL AGE

3. Consider revising Subsection 113<sup>12</sup> by expanding a PA’s responsibility to be transparent, which is not currently expressly stated in the Code. This would take into consideration that there may be circumstances that impact the extent of transparency that may be appropriate (e.g., in an audit, the type and timing of audit procedures, and in business, proprietary commercial information).
4. Consider strengthening the concept of accountability in the Code by, for example:
  - Including new material in Subsection 111<sup>13</sup> on a PA’s willingness to accept responsibility. This would need to take into account whether this aspect of accountability is already covered sufficiently in the proposed new material in Subsection 111 under the Role and Mindset project.
  - More clearly explaining the concept of accountability in Subsection 113 in light of the increasing use of external experts and intelligent agents.
  - Including appropriate references to technology in the provisions relating to relying on the work of others in Section 220.<sup>14</sup> Consideration will need to be given to how best to progress these changes in light of the Role and Mindset project.
5. Consider revising Subsection 114<sup>15</sup> in light of the increased availability and use of personal and other sensitive data to give appropriate consideration to privacy-related matters and the need to actively protect information.

D. ENABLING COMPETENCIES AND SKILLS

6. Consider adding new application material to Subsection 113 to highlight the importance of professional or “soft” skills, and provide examples of the emergent technical skills needed in the digital age. In this regard, consideration will be given to the International Education Standards (IES) and related guidance documents prepared by the former International Accounting Education Standards Board (IAESB), especially on professional values, ethics and attitudes, and Information and Communications Technology.

E. AUDITOR INDEPENDENCE

7. With a view to strengthening the IIS in Part 4A:
  - Consider whether certain provisions in Part 4A, such as those in Section 520,<sup>16</sup> should be revised to address the threats to independence created by the sale

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<sup>12</sup> Subsection 113, *Professional Competence and Due Care*

<sup>13</sup> Subsection 111, *Integrity*

<sup>14</sup> Section 220, *Preparation and Presentation of Information*

<sup>15</sup> Subsection 114, *Confidentiality*

<sup>16</sup> Section 520, *Business Relationships*

or licensing of technology applications to audit clients and the use of an audit client's technology tool in the delivery of non-assurance services (NAS) to another entity.

- Revise Section 600,<sup>17</sup> particularly Subsection 606,<sup>18</sup> with respect to the provision of technology-related NAS. Consideration will need to be given to the revised principles addressing the permissibility of NAS and related provisions when finalized under the [NAS project](#), as well as broader relevant feedback received on the NAS Exposure Draft.
- In relation to the concept of an “office,” consider whether Section 510<sup>19</sup> should be revised to better capture the threats to independence created by the use of modern communication technologies by firms. Such technologies potentially challenge the notion of an engagement partner's physical office location being a determining factor in whether that engagement partner or the audit engagement can be unduly influenced by another partner in that same office.

15. The project will involve consultations with various stakeholders, especially:

- Multidisciplinary accountancy firms that develop IT products or provide IT services.
- Corporations or other organizations that develop and/or use IT products and services relevant to the accountancy profession.
- Regulators and audit oversight bodies.
- NSS.
- CAG.
- The IFAC Professional Accountants in Business (PAIB) and Small and Medium Practices (SMP) Committees, and Education Initiative.
- Professional accountancy organizations in major jurisdictions.

#### IV. How the Project Serves the Public Interest and Impact Analysis

##### How the Project Serves the Public Interest

16. The public interest will be served by modernizing the Code and enhancing the contextual relevance of its various provisions in light of the major trends and developments in technology, thereby supporting its effective application in an evolving digital age.

##### Impact Analysis Considerations

17. As the project advances, costs and benefits will be an important consideration as the IESBA evaluates options and the practical impact of any potential changes to the Code. The nature and extent of those costs and benefits, including the impact on service offerings of firms, will depend on the nature and extent of the changes envisaged.

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<sup>17</sup> Section 600, *Provision of Non-assurance Services to an Audit Client*

<sup>18</sup> Subsection 606, *Information Technology Systems Services*

<sup>19</sup> Section 510, *Financial Interests*

## V. Implications for any Specific Persons or Groups

18. The project has implications for:
- NSS and professional accountancy organizations that have adopted the Code or use it as a basis or a benchmark for their own standards.
  - Firms that conform their policies and methodologies to the Code or are otherwise subject to national standards based on the Code.
  - Individual PAs in public practice and in business.
  - Supreme audit institutions that align their codes of ethics to the IESBA Code.
  - Preparers and those charged with governance (TCWG) in relation to their interactions with auditors on independence matters.
  - The regulatory and audit oversight community in relation to enforcement of independence requirements.
  - The academic and educational communities in relation to teaching accounting ethics.

## VI. Output and Project Timetable

### Development Process

19. The project will follow the IESBA's due process, including seeking input and advice from the IESBA CAG.
20. Additionally, given the pervasiveness of the technological developments across the assurance, accounting and finance functions, the project will involve appropriate coordination with the IAASB under the established coordination framework of the two Boards.

### Project Output

21. It is anticipated that the output of the project will be revisions to Parts 1-3 and the IIS in Part 4A, as well any consequential or conforming amendments to the IIS in Part 4B.
22. Depending on issues identified, the Task Force may bring forward other relevant matters for the IESBA's consideration. These may include insights, observations and questions pertaining to the technologies of blockchain, cybersecurity, Internet of Things, cloud-based services, and data governance, which will be addressed in Phase 2 of the IESBA's Technology initiative.
23. As it considers the various issues, the Task Force may identify opportunities to recommend the development of non-authoritative guidance or other actions beyond the areas already noted in the Phase 1 report.

### Project Timetable

24. Subject to the IESBA's approval of the project proposal, this project will commence immediately. The Task Force activities will be appropriately coordinated with the Phase 2 work of the Technology initiative given the interrelated nature of the technologies of AI, big data/data analytics, blockchain and cybersecurity at a broad level. The specific project milestones and outputs will be dependent on the matters that the Task Force and the IESBA ultimately determine are appropriate to address as part of the project, and the priorities assigned to those matters.

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

<b>Timing</b>	<b>Milestone</b>
March 2020	Discussion of project proposal with IESBA CAG
	IESBA approval of project proposal
June 2020	Update to IESBA
September 2020	Discussion of issues with IESBA CAG and IESBA
December 2020	Discussion of issues with IESBA
March 2021	First read of proposals to IESBA CAG and IESBA
June 2021	IESBA consideration and approval of ED
December 2021	Highlights of ED responses to IESBA
March 2022	Discussion of significant ED comments with IESBA CAG
	Full review of ED responses with IESBA
June 2022	Issues and first read to IESBA post-exposure
September 2022	Discussion of final proposals with IESBA CAG
	IESBA approval of final pronouncement

**VII. Resources Required**

- 26. A project Task Force consisting of five IESBA representatives, with an IESBA member as Chair.
- 27. To maintain coordination with the IAASB, a correspondent member from the IAASB will be appointed to the Task Force.
- 28. IESBA Staff will provide support to the project Task Force.

**VIII. Relevant Sources of Information that Address the Matter Being Proposed**

- 29. Relevant sources of information include:
  - The Phase 1 report.
  - Relevant ethics and independence standards or other literature developed by NSS.
  - Multidisciplinary accountancy firms that develop IT products or provide IT services.
  - The IES and related guidance documents prepared by the former IAESB, especially on professional values, ethics and attitudes, and Information and Communications Technology.

- Research, thought leadership or other literature published by professional accountancy organizations, the governing bodies of other professions, multilateral organizations, academics, technology companies and others on the intersection of ethics and technology.
- The IAASB and its Technology Working Group.
- The International Federation of Accountants (IFAC), including the IFAC Technology Advisory Group.

## Appendix

### **Comments by Standard-Setting Board (SSB)/IFAC Technical Managers**

Due process requires that project proposals be circulated to SSB Staff and IFAC Staff for the technical areas within, or supported by, IFAC for comments on any matters of possible relevance to the project.

#### **Senior Staff to the IFAC Quality and Development Department**

*In addition to the implications already identified in the proposal, we do note that in jurisdictions where a) the national standard-setter and/or PAO has to translate the standards for adoption and implementation or b) the national standard/setter and/or PAO has limited means to address and align changes within its own Code on a timely basis, this might impact global application of any changes.*

*No additional significant concerns or comments related to this project proposal.*

*We encourage the IESBA to update, issue, and if feasible translate, guidance for the changes*

#### **Senior Staff to the IFAC Education Initiative**

*Included in the responses from key accountancy education stakeholders to a recent survey, was the need for a better understanding of how ITC is incorporated into the standards. This is an excellent example. It would be good to create awareness of the project amongst accountancy education stakeholders. I am happy to work with IESBA staff to do so.*

#### **Senior Staff to the IFAC Professional Accountants in Business (PAIB) Committee**

*Given the rapid pace of technology developments, the timeframe for completion of this project over 2 and half years seems relatively long. Any updates to the Code would need to be at a high enough, principles based level to remain relevant irrespective of changes in digital technologies. As the IESBA explores other technologies as part of phase 2, these may also impact any proposed updates. The project proposal does not make it explicitly clear whether updates to the Code under this project proposal will incorporate findings from phase 2.*

*The project proposes addition of application materials on enabling skills and competencies to subsection 113 of the Code, as well as examples of the emergent technical skills needed in the digital age. The Code may not be an appropriate place to include guidance on skills and competencies, which come under the remit of accountancy education providers.*

#### **Senior Staff to the IFAC Public Policy and Regulation (PPR) Group**

*No comment.*

**Senior Staff to the IFAC Small and Medium Practices (SMP) Committee**

*Trends and developments in technology are important for IESBA to actively monitor, so it is able to react to potential issues in a timely manner in the public interest. The rapid pace of technological change makes assessing the full impact at any one point in time very challenging. Hence, only a principles-based approach provides the necessary flexibility. It is noteworthy the Working Group concluded that, generally the Codes currently provides high level, principles-based guidance for most technology-related ethics issues that professional accountants and firms might encounter.*

*The coordination with the Phase 2 work of the Technology initiative will be critical, together with undertaking a thorough impact assessment and cost/ benefit analysis. It is important changes are sufficiently scalable and do not have a disproportionate impact on small- and medium sized practices (SMPs). The Board needs to continue to be sensitive to balancing the burden arising from changes to the Code (e.g. translation and adapting firm methodologies etc.), the potential impact on adoption and the overall benefits to the public interest.*

*I strongly support the coordination with the IAASB on their respective technology initiatives. I also acknowledge the IESBA's intention to consult with the IFAC SMP Committee and will look forward to facilitating feedback as this project progresses*

**Senior Staff to the Transnational Auditors Committee (TAC)**

*Perhaps captured under “Multidisciplinary accountancy firms...” of para.15 of the project proposal, but the Forum of Firms would welcome being part of the active consultations for this project. Further, though not part of the TAC, I will coordinate to ensure there is regular update to IFAC’s Technology Advisory Group (TAG) who to date have had a strong interest in this IESBA initiative.*

Signed: Barry Naik – for the Knowledge Group

Date: March 6 2020

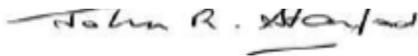
**Senior Staff to International Auditing and Assurance Standards Board (IAASB)**

*N/A – project to be directly coordinated with IAASB.*

**Senior Staff to the International Public Sector Accounting Standards Board (IPSASB)**

*No comments.*

Signed:



Date: February 24, 2020