



**ICAS Response to:
IESBA Exposure Draft: ‘Proposed Technology-
related Revisions to the Code’**

20 June 2022

Introduction

ICAS is a professional body for over 23,000 world class business men and women who work in the UK and in nearly 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 4,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The ICAS Ethics Board has considered the IESBA Exposure Draft: 'Proposed Technology-related Revisions to the Code' and I am pleased to forward its comments.

Any enquiries should be addressed to Ann Buttery, ICAS Head of Ethics.

Key Points

Overall, we are generally supportive of IESBA's proposals outlined in the above Exposure Draft and believe that the new provisions will be beneficial to users of the Code.

Responses to the specific questions

Technology-related Considerations When Applying the Conceptual Framework

1. Do you support the proposals which set out the thought process to be undertaken when considering whether the use of technology by a PA might create a threat to compliance with the fundamental principles in proposed paragraphs 200.6 A2 and 300.6 A2? Are there other considerations that should be included?

(i) Paragraphs 200.6 A2 and 300.6 A2

We agree with the inclusion of paragraphs 200.6 A2 and 300.6 A2 which serve to highlight within the Code that use of technology is a specific circumstance that might create threats to compliance with the fundamental principles.

We also agree with IESBA (paragraph 18 of the Explanatory Memorandum) that placing this guidance in Sections 200 and 300, rather than within Section 120, will make the considerations more visible to PAIBs and PAPPs and will therefore better assist them in identifying threats that might arise from reliance on the output from technology.

We do not believe that any other considerations need to be included.

(ii) Organisational culture

We note the addition to paragraph 120.14 A3 with the insertion of 120.14 A3 (b):

“120.14 A3 Professional accountants are expected to:

(a) encourage and promote an ethics-based culture in their organization, taking into account their position and seniority; and

(b) Demonstrate ethical behavior in dealings with business organizations and individuals with which the accountant, the firm or the employing organization has a professional or business relationship.”

We note that the promotion of an ethics-based culture by professional accountants is also discussed at paragraph 200.5 A3 and suggest that similar wording to 120.14 A3 (b) above could also be added to this paragraph thereby making it more visible to PAIBs.

“200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organisation. To the extent that they are able to do so, taking into account their position and seniority in the organisation, accountants are expected to encourage and promote an ethics-based culture in the organisation, in accordance with paragraph 120.14 A3, **and demonstrate ethical behavior in dealings with business organizations and individuals with which the accountant or the employing organization has a professional or business relationship.**

Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations. “

Having specifically included content in Section 200 for Professional Accountants in Business, does also raise the question if similar provisions should be included in Section 300 for Professional Accountants in Public Practice.

Determining Whether the Reliance on, or Use of, the Output of Technology is Reasonable or Appropriate for the Intended Purpose

2. Do you support the proposed revisions, including the proposed factors to be considered, in relation to determining whether to rely on, or use, the output of technology in proposed paragraphs R220.7, 220.7 A2, R320.10 and 320.10 A2? Are there other factors that should be considered?

(i) Proposed factors to be considered in relation to determining whether to rely on, or use, the output of technology

We note that PAs are being asked to consider the appropriateness of the output from technology in paragraphs 220.7 A2 and 320.10 A2. We believe some may be concerned with the extent of these obligations in terms of competence, however, we also appreciate that PAs cannot just blindly rely on the output from technology and there is a need for PAs to give some consideration as to the reasonableness of the output of the technology just as they would if they were considering the work of an expert.

Paragraph 36 (a) of the Explanatory Memorandum states: “Although PAs do not need to be experts in technology, the IESBA anticipates that they will have a reasonable degree of awareness and understanding of certain matters with a view to deciding whether reliance on the output of technology is reasonable.” As such, we suggest this wording ought to be included, or expanded upon, in the Code to clarify to PAs IESBA’s expectations of them.

(ii) Appropriateness of the inputs to the technology

The last bullets of paragraphs 220.7 A2 and 320.10 A2 state: “The appropriateness of the inputs to the technology, including data and any related decisions.” To enhance clarity for users as to IESBA’s intentions, we suggest this bullet could be expanded to include what is noted in the Explanatory Memorandum paragraph 19 i.e. “The IESBA noted that inputs to technology are not only data, but also other information such as decisions made by individuals relating to the operation of the technology.” For example: “The appropriateness of the inputs to the technology, including data and any related decisions, **such as decisions made by individuals relating to the operation of the technology.**”

(iii) A professional accountant who intends to rely on the work of other individuals

We note that IESBA is proposing to delete reference to “individuals” from paragraph R220.7 (a) (noted below for reference), however 220.7 A1 still refers to “other individual or organisation”. We therefore suggest that this proposed change is leading to some inconsistency between these two paragraphs. We further note that following the Role and Mindset revisions to “Subsection 112 – Objectivity”, reference to “Undue influence of others” in paragraph R112.1 was expanded to elaborate on the meaning of “others”: i.e. “undue influence of, or undue reliance on, individuals, organizations, technology or other factors.” We therefore suggest reference to “individuals” should remain in paragraph R220.7 (a) as this would ensure consistency both with paragraph 220.7 A1 and also paragraph R112.1 as follows:

“R220.7 A professional accountant who intends to rely on:

- (a) the work of other individuals, either internal or external to the employing organization, or other organizations, or”

We also note proposed paragraphs R220.7 and 220.7 A1 for reference:

“R220.7 A professional accountant who intends to rely on:

- (a) The work of others, individuals, either whether internal or external to the employing organization, or other organizations, or
(b) The output of technology, whether that technology was developed internally or provided by third parties,

shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider in determining whether reliance on the work of others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.”

(iv) Bias

Within the “Relying on the Work of Others or on the Output of Technology” paragraphs of Section 220 we also suggest it may be helpful to refer to the “Bias” paragraphs at paragraphs 120.12 A1 to 120.12 A3 e.g. automation bias.

(v) Paragraph 220.7 A3

We note that paragraph 220.7 A3 states the following: “Another consideration is whether the professional accountant’s position within the employing organization impacts the accountant’s ability to obtain information in relation to the factors required to determine whether reliance on the work of others or on the output of technology is reasonable.” We do not object to this paragraph however we suggest that, in addition, some guidance could be provided regarding what the PA should do in such

a circumstance. For example, could the PA be referred to Section 230 “Acting with Sufficient Expertise” and Section 270 “Pressure to breach the Fundamental Principles”?

Consideration of “Complex Circumstances” When Applying the Conceptual Framework

3. Do you support the proposed application material relating to complex circumstances in proposed paragraphs 120.13 A1 to A3?

We note the paper [‘Complexity and the professional accountant: Practical guidance for ethical decision-making’](#) which provides a detailed explanation of the distinction between ‘complicated’ versus ‘complex. However, as acknowledged by IESBA at paragraph 26 of the Explanatory Memorandum, we wonder if PAs reading the proposed new paragraphs for inclusion in the Code “cold”, i.e. without knowledge of this background paper or IESBA’s technology project, will understand that there is nuance in the terminology, and that there is significance in IESBA’s use of the term ‘complex’ in the Code as opposed to ‘complicated’, because these terms can be used interchangeably in practice. The distinction between these two terms is important and the Code needs to properly reflect this.

In paragraph 23 of the Explanatory Memorandum, IESBA acknowledges that complex circumstances have always existed and are not a new phenomenon specific to technology, however paragraph 25 then states IESBA’s intention in including proposed paragraphs 120.13 A1 to A3 is to highlight the particular considerations that give rise to ‘complex’ circumstances. If this is the case, in order to try to help users to understand the significance of the paragraphs, IESBA might wish to consider providing examples so that users can get a better understanding of the types of situations envisioned by these paragraphs:

“Complex Circumstances

120.13 A1

The circumstances in which professional accountants carry out professional activities vary considerably. Some professional activities might involve complex circumstances that increase the challenges when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.13 A2 Complex circumstances arise where the relevant facts and circumstances involve:

- (a) Elements that are uncertain; and
- (b) Multiple variables and assumptions,

which are interconnected or interdependent. Such facts and circumstances might also be rapidly changing.

For example, complex circumstances could be brought on by, amongst other factors, the impact of new technologies, or rapidly changes laws and regulations with differing public interest angles. Tax planning for a multinational corporation or successfully merging the cultures of two organizations is complex.”

4. Are you aware of any other considerations, including jurisdiction-specific translation considerations (see paragraph 25 of the explanatory memorandum), that may impact the proposed revisions?

As noted above, we are aware that the terms ‘complex’ and ‘complicated’ can be used interchangeably in practice in the English language and therefore the significance of use of the term ‘complex’ by IESBA (without reference to other material) could be lost on users of the Code. We disagree with IESBA that there is no downside to the inclusion of these paragraphs as IESBA’s intention is that these paragraphs would highlight to users that the approach to dealing with a ‘complex’ versus a ‘complicated’ issue is different and, as currently drafted, we do not believe this is clear. We are supportive of content being included in the Code on “complexity” but additional clarity is required to better communicate to users IESBA’s intentions in this regard.

Professional Competence and Due Care

5. Do you support the proposed revisions to explain the skills that PAs need in the digital age, and to enhance transparency in proposed paragraph 113.1 A1 and the proposed revisions to paragraph R113.3, respectively?

Yes – we support the proposed changes to paragraphs 113.1 A1 and R113.3.

6. Do you agree with the IESBA not to include additional new application material (as illustrated in paragraph 29 of the explanatory memorandum) that would make an explicit reference to standards of professional competence such as the IESs (as implemented through the competency requirements in jurisdictions) in the Code?

We agree with IESBA's proposal not to include additional new application material that would make an explicit reference to standards of professional competence such as the IESs.

Confidentiality and Confidential Information

7. Do you support (a) the proposed revisions relating to the description of the fundamental principle of confidentiality in paragraphs 114.1 A1 and 114.1 A3; and (b) the proposed Glossary definition of “confidential information?”

Yes – we support the proposed revisions in paragraphs 114.1 A1 and 114.1 A3 and the proposed Glossary definition of “confidential information”.

Paragraph 114.1 A1 states: “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.”

We would note in paragraph 114.1 A1 a situation similar to paragraph 220.7 A3 (see below) where a professional accountant's position in the organisation may impact their ability to do all of this. They can only be held responsible for keeping information confidential within their own individual sphere of influence. For example, an audit senior in a firm would be held responsible for the client information that comes to them during their work, but they can't be held responsible for the lawful destruction of that information (for example the routine destruction of emails) from the firm's IT systems as that will be a policy beyond their sphere of influence. We appreciate there may be exceptions where specific procedures are in place, but we do question the generality of the proposed paragraph.

Paragraph 220.7 A3: “Another consideration is whether the professional accountant's position within the employing organization impacts the accountant's ability to obtain information in relation to the factors required to determine whether reliance on the work of others or on the output of technology is reasonable.”

8. Do you agree that “privacy” should not be explicitly included as a requirement to be observed by PAs in the proposed definition of “confidential information” in the Glossary because it is addressed by national laws and regulations which PAs are required to comply with under paragraphs R100.7 to 100.7 A1 of the Code (see sub-paragraph 36(c) of the explanatory memorandum)?

Yes - we agree that “privacy” should not be explicitly included as a requirement to be observed by PAs in the proposed definition of “confidential information” in the Glossary because it is addressed by national laws and regulations which PAs are required to comply with under paragraphs R100.7 to 100.7 A1 of the Code.

Independence (Parts 4A and 4B)

9. Do you support the proposed revisions to the International Independence Standards, including:

(a) The proposed revisions in paragraphs 400.16 A1, 601.5 A2 and A3 relating to “routine or mechanical” services.

Yes – we support the proposed revisions in paragraphs 400.16 A1, 601.5 A2 and A3 relating to “routine or mechanical” services.

However, we note that Paragraph 45 of the Explanatory Memorandum states that: “Proposed paragraph 601.5 A2 further reminds users of the Code that automated NAS are not necessarily routine or mechanical” and Paragraph 46 states that: “In finalizing the technology-related proposals, the IESBA incorporated stakeholder feedback arising 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.”

We would therefore suggest spelling this threat out further in the Code by adding an additional sentence to paragraph 601.5 A2:

601.5 A2 Accounting and bookkeeping services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include how the technology functions and whether the technology is based on expertise or judgments of the firm or a network firm. Automated services that appear to be “routine or mechanical” could, in substance, result in an assumption of a management responsibility.

(b) The additional proposed examples to clarify the technology-related arrangements that constitute a close business relationship in paragraph 520.3 A2. See also paragraphs 40 to 42 of the explanatory memorandum.

We agree with the additional proposed examples in paragraph 520.3 A2.

The IESBA states that it believes that the second bullet of paragraph 520.3 A2 which states the following: “Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.” - covers a situation where firms are licensing software: (a) to their audit clients, who are in turn directly utilizing the technology in the delivery of services to their own customers/clients; or (b) from an audit client and directly using the technology in the delivery of services to their clients.

We do not believe this to be clearly the case and the use of an additional example would be a helpful signpost for users of the Code.

(c) The proposed revisions to remind PAs providing, selling, reselling or licensing technology to an audit client to apply the NAS provisions in Section 600, including its subsections (see proposed paragraphs 520.7 A1 and 600.6).

We agree with the proposed revisions in paragraphs 520.7 A1 and 600.6 to remind PAs providing, selling, reselling or licensing technology to an audit client to apply the NAS provisions in Section 600.

10. Do you support the proposed revisions to subsection 606, including:

(a) The prohibition on services in relation to hosting (directly or indirectly) of an audit client’s data, and the operation of an audit client’s network security, business continuity and disaster recovery function because they result in the assumption of a management responsibility (see proposed paragraph 606.3 A1 and related paragraph 606.3 A2)?

Yes – we support the proposed prohibition on services in relation to hosting (directly or indirectly) of an audit client’s data, and the operation of an audit client’s network security, business continuity and disaster recovery function because they result in the assumption of a management responsibility.

In addition, if a reasonable and informed third party were aware that a firm had such an arrangement with their audit client, we believe they could reasonably conclude that this might threaten the firm's independence. We also add that if there was to be a hack and the firm was hosting the client's system this could lead to reputational damage for the firm.

We do however believe that there is a need to clarify exactly what client systems are meant to be covered by paragraphs 606.3 A1 and 606.3 A2 in order that the user will be able to understand what is expected of them.

We suggest the following amendments to the Code to clarify IESBA's intentions:

"606.3 A1 **In accordance with paragraph R400.15**, examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Provides services in relation to the hosting (**either directly by the firm or network firm or indirectly by a third party**) of an audit client's **primary/active data systems**.
- Operates an audit client's network security, business continuity or disaster recovery function.

606.3 A2 The collection, receipt and retention of data provided by an audit client to enable the provision of a permissible service to that client, **such as data provided by the client to the firm for the purposes of the audit**, does not result in an assumption of management responsibility **as the client still maintains control over this data.**"

(b) The withdrawal of the presumption in extant subparagraph 606.4 A2(c) and the addition of "Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm" as an example of an IT systems service that might create a self-review threat in proposed paragraph 606.4 A3?

We agree with the withdrawal of the presumption in extant subparagraph 606.4 A2(c) and the addition of "Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm" as an example of an IT systems service that might create a self-review threat in proposed paragraph 606.4 A3.

(c) The other examples of IT systems services that might create a self-review threat in proposed paragraph 606.4 A3?

We agree with the other examples of IT systems services in proposed paragraph 606.4 A3. However, we question if the paragraph should say that these are examples of IT systems services that "might" create a self-review threat, or whether they are examples of IT systems services that create a self-review threat, in which case the word "might" in the first sentence would need to be deleted (see below):

606.4 A3 Examples of IT systems services that ~~might~~ create a self-review threat when they form part of or affect an audit client's accounting records or system of internal control over financial reporting include: • Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems. • Supporting an audit client's IT systems, including network and software applications. • Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm.

If the word "might" is deleted, it may also need to be clarified in this paragraph that when a self-review threat for an audit client that is a public interest entity has been identified, the firm or network firm is prohibited from providing the IT systems service.

An alternative would be to remove paragraph 606.4 A3 completely however we do believe these examples provide useful information to users, even if it is just to make clear the extent to which the prohibition on providing non-assurance services to PIE audit clients is applicable.

11. Do you support the proposed changes to Part 4B of the Code?

We support the proposed changes to Part 4B of the Code, noting the comments made above.

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