



Sent via email: KenSiong@ethicsboard.org

June 30, 2022

International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, NY 10017

Re: *Proposed Technology-related Revisions to the Code*

Dear Members of the International Ethics Standards Board for Accountants (IESBA):

The AICPA Professional Ethics Executive Committee (PEEC) respectfully submits the following comments to the IESBA on its *Proposed Technology-related Revisions to the Code* exposure draft (the technology ED).

The AICPA is the world's largest member association representing the CPA profession, with 431,000+ members in 130 countries and territories, representing many areas of practice, including business and industry, public practice, government, education, and consulting.

The AICPA sets ethical standards for its members and U.S. auditing standards for private companies, nonprofit organizations, and federal, state, and local governments; provides educational materials to its members; develops and grades the Uniform CPA Examination; monitors and enforces compliance with the profession's technical and ethical standards; offers specialized credentials; builds the pipeline of future talent; and drives professional competency development to advance the vitality, relevance and quality of the profession.

Through PEEC, the AICPA devotes significant resources to ethics activities, including evaluating existing standards, proposing new standards, and interpreting and enforcing those standards. Over the past several years PEEC has devoted significant resources to develop independence guidance related to the provision of technology-related services.

PEEC has the following comments regarding the technology ED.

### Overall approach

PEEC generally supports the technology-related revisions to the Code. The proposed changes will keep the Code relevant with changing technology while staying broad enough to adapt to technologies that do not yet exist.

## Request for specific comments

### Technology-related Considerations When Applying the Conceptual Framework

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 the proposed paragraphs 200.6 A2 and 300.6 A2? Are there other considerations that should be included?

PEEC believes the last bullet point in paragraphs 200.6 A2 and 300.6 A2 is beneficial because it specifies that the situation described might create a self-interest or self-review threat. The first four bullet points are not as clear and do not reference which threats to fundamental principles may arise when using technology. To ensure the proper application of these bullets, PEEC recommends that the IESBA specify which threats relate to each consideration.

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

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?

PEEC supports the content of the proposed revisions in paragraphs R220.7, 220.7 A2, R320.10, and 320.10 A2. However, these paragraphs seem misplaced in the Code. PEEC believes the requirements and application guidance about relying on and using the output of technology would be better placed under their own headings in Sections 220 and 320. In addition, the IESBA should consider explaining why the scope of the guidance in part 2 and part 3 differs (reliance on vs. use of the output of technology).

To ensure the proper application of paragraphs 220.7 A2 and 320.10 A2, PEEC requests that the IESBA provide additional guidance on how professional accountants should apply the factors, including practical examples.

### Consideration of “Complex Circumstances” When Applying the Conceptual Framework

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

PEEC does not support adding the proposed application material relating to complex circumstances to the Code because the guidance is unclear and will result in inconsistent application. PEEC recommends addressing this topic in nonauthoritative materials so that

examples or scenarios can be used to demonstrate how complexity can play a role when applying the conceptual framework.

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?

PEEC is not aware of other considerations that may impact the proposed revisions.

### Professional Competence and Due Care

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?

PEEC supports the proposed revisions to paragraph R113.3.

PEEC does not support the proposed revisions to paragraph 113.1 A1. PEEC disagrees that the non-technical professional skills listed in paragraph 113.1 A1 (b) should be *required* for professional competence because professional accountants have varying levels of soft skills and abilities<sup>1</sup>. PEEC believes application paragraphs should not contain requirements and recommends the following revisions to paragraph 113.1 A1 (deleted text in strikethrough and additions in bold italic):

Serving clients and employing organizations with professional competence ~~requires:~~  
***involves*** ~~(a)~~ the exercise of sound judgment in applying professional knowledge and skills.;  
and ~~(b) The application of interpersonal, communication and organizational skills~~

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?

PEEC agrees with the IESBA not to include additional application material that references specific standards of professional competence. These standards may not apply in all jurisdictions.

### Confidentiality and Confidential Information

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<sup>1</sup> As written, paragraph 113.1 A1 (b) may exclude neurodiverse individuals and imply that those professional accountants are not competent.

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”?

PEEC supports the proposed revisions in paragraphs 114.1 A1 and 114.1 A3 and the definition of “confidential information”. PEEC believes the addition of the term “appropriate action” in paragraph 114.1 A1 is beneficial because it is broad and allows local governing bodies to determine which actions may be appropriate in each jurisdiction.

To ensure the proper application of paragraph 114.1 A1, PEEC requests clarification of the difference between professional relationships and business relationships. For example, would information about a client or employing organization provided to a professional accountant at a social gathering be considered acquired in the course of a professional or business relationship and would that information fall under the definition of “confidential information?” Paragraph R114.1 references “information acquired *as a result of* professional and business relationships” while the proposed application paragraph 114.1 A1 uses “information acquired *in the course of* professional and business relationships.” If there is a reason for the difference in terminology, PEEC believes the IESBA should provide an explanation. If these terms are used interchangeably, the application paragraph should conform with the requirement paragraph.

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)?

PEEC agrees that “privacy” should not be included as a requirement in the proposed definition of “confidential information.”

Independence (Parts 4A and 4B)

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.

To ensure the proper application of paragraph 400.16 A1, PEEC recommends that the IESBA clarify the scope of the paragraph. The referenced requirements apply for all professional activities with audit clients, and the new paragraph does not provide any insight to a professional accountant on how the use of technology might impact their evaluation of compliance with the requirements. If the scope cannot be clarified, PEEC recommends that the paragraph be excluded.

To ensure the proper application of paragraphs 601.5 A2 and 601.5 A3, PEEC requests clarification as to the relevancy of how the technology functions when determining whether an automated service is routine or mechanical. If the IESBA decides not to include such clarification, PEEC recommends replacing the phrase as follows (deleted text in strikethrough and additions in bold italic):

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 a~~ ***firm may consider*** whether the technology is based on expertise or judgments of the firm or a network firm.

- (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.

PEEC supports the revisions to paragraph 520.3 A2.

- (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).

PEEC does not support adding paragraph 520.7 A1 to the “Business Relationships” section because it melds independence requirements for business relationships and non-assurance services (NAS). In addition, this paragraph concludes that the requirements and application material in Section 600 apply even though footnote 17 acknowledges that the NAS provisions may not be relevant.

PEEC does not support adding paragraph 600.6 as currently drafted because it is inconsistent with the explanatory memorandum. PEEC believes that the explanatory memorandum makes it clear (through footnote 17) that when a firm resells a product developed by a third party, these “pass-through” situations do not always result in a firm providing a non-assurance service that would be subject to the requirements and application material in section 600. Rather, the firm is “prompted to consider whether the NAS provisions are relevant.” To address the inconsistency between the explanatory memorandum and the standard, PEEC recommends that paragraph 600.6 either be revised to align with the explanatory memorandum or excluded from the Code.

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

In addition to the specific concerns addressed below in items (a) and (b), PEEC believes that

paragraph 606.2 A2 or an additional application paragraph should clarify that an IT system does not include a tool that performs only discrete calculations when the audit client evaluates and accepts responsibility for the input and assumptions and the audit client has sufficient information to understand the calculation and the results.

- (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)?

To ensure the proper application of the parenthetical text, "(directly or indirectly)" in the fourth bullet of paragraph 606.2 A1 and the first bullet of paragraph 606.3 A1, the IESBA should include the clarification from the explanatory material as application guidance within the Code. If such clarification is not added, then the IESBA should exclude the parenthetical text from the Code and consider providing guidance in the form of a Q&A.

PEEC supports the other elements in paragraphs 606.3 A1 and 606.3 A2.

- (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?

PEEC does not support these revisions. PEEC recommends that paragraph 606.4 A2 be maintained and include some examples of implementation services related to commercial off-the-shelf software<sup>2</sup> that do not create a self-review threat, including:

- Installing third-party technology onto the audit client's designated hosting site
- Configuring third-party technology based upon the audit client's selected features, functionality options, and settings
- Interfacing third-party technology using an application programming interface that is not developed, distributed, maintained or supported by the firm or network firm
- Data translation services using an application programming interface that is not developed, distributed, maintained or supported by the firm or network firm

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<sup>2</sup> Commercial off-the-shelf (COTS) refers to software developed, distributed, maintained, and supported by an entity or entities that are not the member or member's firm (a third-party vendor), sometimes referred to as an "off-the-shelf" package or solution. COTS solutions have generally referred to traditional on-premises software that runs on a customer's own computers or on a third-party vendor's "cloud" infrastructure. COTS solutions range from software packages that require only installation on a computer and are ready to run to large-scale, complex enterprise applications.

To accommodate for these edits, PEEC recommends the following addition to the implementation bullet in paragraph 606.4 A3 (added text in bold italic):

- Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm, ***except as provided for in 606.4 A2.***

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

PEEC supports the other components of paragraph 606.4 A3 and believes they properly limit the possibility of the creation of a self-review threat to situations in which the IT systems services form part of or affect an audit client's accounting records or system of internal control over financial reporting. The limitation allows non-public interest entities to implement safeguards against possible self-review threats.

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

For consistency with Part 4A of the Code, please refer to PEEC's comments above that relate to:

- the bracketed text, "(directly or indirectly)" in paragraph 900.13 A4
- the additions to the "Business Relationships" paragraphs 920.3 A2 and 920.6 A1
- paragraph 950.5
- paragraph 950.10 A1

### International convergence

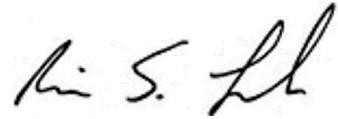
When deciding upon effective dates for changes to the Code, PEEC believes an important consideration is the due process that some organizations must follow in order to converge. In recent years, timelines to converge have been prolonged not only because of the volume of changes made by the IESBA but by the meeting limitations caused by the pandemic. To better achieve international convergence, the IESBA should consider a minimum of a two-year delayed effective date for all standards with longer periods for more complex projects or when multiple projects are finalized in close proximity. This extended timeframe will allow for due process to be followed so international harmonization can be achieved. In addition, the IESBA could consider allowing for early implementation so that those organizations that are not subject to due process and can act more quickly may choose to do so.

The significant volume of the IESBA standard setting activity impacts PEEC's ability to converge and so we encourage the IESBA to continue considering this when determining comment periods for future exposure drafts.

PEEC appreciates this opportunity to comment. We would be pleased to discuss in further detail

our comments and any other matters with respect to the *Proposed Technology-related Revisions to the Code*.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian S. Lynch". The signature is fluid and cursive, with the first name "Brian" and last name "Lynch" clearly distinguishable.

Brian S. Lynch, Chair  
Professional Ethics Executive Committee

cc: Toni Lee-Andrews, CPA, PFS, CGMA, Director – Professional Ethics