

June 20, 2022

Mr. Ken Siong  
Senior Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York, New York 10017 USA

Re: *Exposure Draft, Proposed Technology-related Revisions to the Code*

Dear Mr. Siong:

Deloitte Global appreciates the opportunity to provide comments on the exposure draft “Proposed Technology-related Revisions to the Code” (the “ED”) issued in February 2022 by the International Ethics Standards Board for Accountants (the “IESBA” or “Board”).

We support the efforts by the Board to seek to enhance the Code’s robustness by considering its relevance in an environment being transformed by rapid technological advancements, consistent with the Board’s strategic theme of advancing the relevance and impact of the Code through maintaining a global Code fit for purpose in an evolving environment.

Deloitte Global believes that the use of technology by professional accountants should be encouraged for the many benefits it brings, including enhanced accuracy, speed and cost effectiveness. However, the ED appears to be based on an underlying premise that technology can only threaten compliance with the fundamental principles. We encourage the Board to consider a more balanced discussion about use of technology, and the ways in which it may also reduce threats to compliance with the fundamental principles, for example by delivering an audit or non-audit service consistently and without human bias, thereby enhancing objectivity and improving quality.

Deloitte Global also encourages the Board to consider defining the many new terms it has introduced in Section 606 to ensure they are subject to consistent interpretation. For example, explaining the difference between customization and configuration would help clarify the impact each has on creating threats to independence is different. We would be supportive of an approach similar to that taken in the revised *Information Systems Services Interpretation* of the AICPA Code (Section 1.295.145), which specifically defines certain terms that are essential for a consistent application of the updated interpretation.

Deloitte Global is also specifically concerned that the prohibition with respect to hosting services is too broad and the terminology used makes it unclear which services are included. The description of IT services refers to “managing (directly or indirectly) the hosting of data on behalf of the audit client” while the subsequent prohibition paragraph refers to “services in relation to the hosting (directly or indirectly) of an audit client’s data.” The latter is a particularly broad description of services, some of which might not create an unacceptable threat to independence. We suggest the Board consider providing a clear explanation of the services that are covered by the provisions which would enable the consistent interpretation of the Code, which is in the public interest.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4A, 3TR, United Kingdom.

Please find below our comments in response to the specific questions in the explanatory memorandum for the Board's consideration.

## Specific Comments

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

**Question 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?

As noted in the introductory comments, it is concerning that the Code provides that the use of technology can only create threats to (and not potentially enhance) compliance with the fundamental principles. It is recognized in the audit profession that technology is an important driver for improving audit quality and it would be detrimental to suggest that the use or reliance on the output of technology in this circumstance can only threaten the auditor's integrity, objectivity or professional skepticism.

Notwithstanding the above, Deloitte Global is supportive of the need to highlight that *improper* use of, or over-reliance on, technology might create threats to compliance with fundamental principles. However, we are uncertain whether proposed paragraphs 200.6 A2 and 300.6 A2 provide effective guidance for the professional accountant to understand these risks. In Deloitte Global's view it would be more useful to provide practical examples of how technology can potentially create a threat. Including technology-related examples for each threat might make these concepts more useful for users of the Code.

Deloitte Global also has the following specific comments for the Board's consideration:

- The proposed paragraphs state that "the use of technology is *a specific circumstance* that might create threats to compliance (...)" which seems too broad and overarching. We do not believe that the use of technology in and of itself might create a threat and the phrase "is a specific circumstance" doesn't add clarity in this context. We believe it is important to highlight that it is an *improper* use of technology that might create a threat and the language of the Code should reflect that.
- It is unclear how the last two bullet points should be interpreted and whether placing reliance on in-house technology rather than on third-party technology increases or diminishes the threat. It would seem from a general principles perspective, the assessment under the first three bullet points should apply equally regardless of who developed the technology. This would be consistent with paragraph R220.7 which states that a professional accountant who intends to rely on 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.

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

**Question 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?

Deloitte Global is supportive of providing factors to be considered in relation to determining whether to rely on, or use the output of technology, including those proposed. However, the factors are specific to the use of technology and should not be simply added to the section on using the work of an expert. We encourage the Board to consider including separate provisions around this determination (e.g., as paragraphs R320.11 and 320.11 A1) which would also help give appropriate prominence to those revisions.

We are also of the view that it would be valuable to provide more context to help with practical application and to ensure it is clear why those factors are important e.g., why the nature of activity is relevant, or why the extent of reliance matters in this determination.

Deloitte Global also provides the following specific comments for the Board's consideration:

- The factors included in paragraph 220.7 A2 are the same as those in paragraph 320.10 A2 however, the introductory words are different, and it is unclear if the difference is intentional. Paragraph 220.7 A2 states these are factors to consider in determining "whether reliance on the output of technology is reasonable" while paragraph 320.10 A2 states these are the factors to consider when a professional accountant "intends to use the output of technology". Likewise, the subsequent Part 4A paragraphs refer to "relying/reliance on technology" and the Part 4B paragraphs refer to "use of technology". The commentary in the ED uses "rely or use" interchangeably for both. If there is a purposeful distinction being made, then it is unclear what it is or what the impact on the assessment should be.
- With respect to the second to last bullet point it is unclear whether this is a positive or negative factor. The fact that the firm has oversight of the technology could be viewed as a positive factor because the professional accountant can be more confident in relying on it, or as a negative factor because it creates a familiarity threat. The bullet point also seems to be implying that in-house technology should be treated differently from third party technology, whereas under the other bullet points the outputs of technology should be equally evaluated for intended purpose, regardless of whether in-house or third party technology. Including a potentially negative factor in assessment of in-house technology could have the unintended consequence of discouraging the development of technology by professional accountants.
- While there is no specific question in the ED with respect to paragraph 220.7 A3, we are not clear why this factor is included separately to those in paragraph 220.7 A2 and is not included at all in Section 300. Deloitte Global does believe that the role of the person within the organisation would have impact on their determination of appropriateness of using technology and that the Code should clearly address this. For example, a professional accountant who is more junior within the organisation might not be in the position to question whether the underlying technology has been appropriately tested but should understand the output from the technology for the context in which it is to be used.

### *Consideration of "Complex Circumstances" When Applying the Conceptual Framework*

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

Deloitte Global recognizes that the environment in which a professional accountant practices is increasingly complex. However, we question whether dealing with complexity is an ethical matter or whether the material could be addressed in thought material outside the Code along with examples and case studies. The concept does not align with the fundamental principles framework of the Code and it is unclear how, having determined that a complex circumstance exists, the professional accountant is expected to practically "manage the evolving interaction of facts and circumstances as they develop" – nor evidence that they have done so. It is also unclear how this guidance interacts with the requirement in paragraph R120.9 "Consideration of New Information or Changes in Facts and Circumstances" and guidance in paragraphs 120.13 A1 to A3.

Deloitte Global also provides the following specific comments for the Board's consideration:

- Deloitte Global suggests replacing "monitoring" with "being alert to" in the last bullet point of paragraph 120.13 A3. The term "monitoring" is used in a different context in the remainder of the Code.
- Extant paragraph 200.5 A3 states that the professional accountant is expected to encourage and promote an ethics-based culture in the organization in accordance with paragraph 120.13 A3 (proposed paragraph 120.14 A3). It is unclear what would be expected by the proposed second prong (b) in order to "demonstrate" ethical

behavior. We recommend clarifying expectations or deleting this prong entirely especially considering a professional accountant is already required to comply with the Code which is the strongest demonstration of ethical behavior.

- We believe complex circumstances may arise when either paragraph 120.13 A2 (a) or (b) is present, not just both. We suggest changing “and” to “or”.

**Question 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?

Deloitte Global has no comments to make in addition to the considerations already raised in the ED about translation considerations.

#### *Professional Competence and Due Care*

**Question 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?

Deloitte Global questions the relevance of interpersonal and communication skills to the topic of technology. Notwithstanding this view, the proposed change to paragraph 113.1A1 does not recognize that different roles might require various levels of interpersonal skills. Instead, it implies without these skills an individual would not have the professional competency to be a professional accountant even when the role would not demand it. We also suggest for the Board to consider whether the proposed change could be perceived to lack neurodiversity inclusiveness.

**Question 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?

Deloitte Global agrees with the IESBA to not include the referred application material.

#### *Confidentiality and Confidential Information*

**Question 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?”

Deloitte Global supports the proposed revisions as reasonable, however, the wording in the provision should be aligned to paragraph R114.1 which states “information acquired as a result of professional activity or business relationship” rather than “in the course of” as in the proposed paragraph 114.1 A1 as it not clear if there is a difference in meaning.

**Question 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)?

Deloitte Global agrees that privacy should not be explicitly included as a requirement in the Code for the reason given.

#### *Independence (Parts 4A and 4B)*

**Question 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.

*Comments on paragraph 400.16 A1*

Deloitte Global questions the need for this new paragraph. The prohibition on assuming management responsibilities for an audit client is an overarching requirement. Including a separate paragraph in this general section stating that a requirement paragraph applies when using technology might imply that there are other circumstances in the Code where the requirement *does not* apply. Moreover, we are concerned that the wording in proposed paragraph 400.16 A1 implies that the use of technology in itself will involve assuming a management responsibility “regardless of the nature or extent of such use”.

Further, the wording “*when technology is used in performing a professional activity*” is too broad and unclear in its application. When read literally, the day-to-day activities such as the use of email by a professional accountant could be included by this phrase. If the Board deems this paragraph truly necessary, the Board should consider rephrasing the wording to not extend the application of this paragraph to the conventional use of technology, such as email or word processing software, in providing a service.

*Comments on paragraph 601.5 A2 and amended paragraph 601.5 A3 relating to “routine or mechanical” services*

Deloitte Global finds the overall intention and application of these proposed paragraphs unclear. The ED states that the intention is to acknowledge that accounting and bookkeeping services can either be manual or automated, and to prompt consideration of how technology affects an assessment of whether an automated accounting or bookkeeping service is “routine or mechanical.” However, it is unclear how the assessment set out in paragraph 601.5 A2 is intended to lead the professional accountant to a conclusion. In Deloitte Global’s view, the key determination is the underlying nature of the service. If the activity would be considered routine and mechanical if carried out manually, the fact that the service is delivered in an even faster, more automated way should not change that conclusion even if there was complexity involved in automating that service through technology. Conversely, if the manual provision of a service required the application of complex calculations and considerations, the automation of that same service which now allows it to be delivered with a “click of a button” would not render it routine and mechanical. We suggest for the proposed paragraph to simply state the underlying nature of the service needs to be considered and whether it is deemed to be routine and mechanical is not affected by whether such service is provided manually or through technology.

- (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.**

Deloitte Global is supportive of the additional proposed examples of arrangements that constitute a close business relationship, and agrees with the commentary in paragraphs 40 to 42 of the explanatory memorandum that further examples are not required.

- (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).**

Deloitte Global does not support the proposed revisions and is concerned that the interaction between the non-assurance service and business relationship provisions in the Code, which cover very different relationships, will become unclear. Deloitte Global specifically disagrees with the notion that the resale of third-party technology is equivalent to a non-assurance service that requires assessment under Section 600 – a scenario that the Board itself acknowledged in the footnote to the ED. However, taking into consideration the background of the Board’s decision to include the proposed revisions, we support the premise that a user of the Code should be reminded that Section 600 applies with respect to technology *developed by a firm or network firm*.

**Question 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)?**

*Comments regarding “services in relation to hosting”*

Deloitte Global does not support a blanket assumption as proposed that hosting always results in assuming a management responsibility and therefore does not support this revision which could have unintended consequences.

The most concerning aspect is the wording of the prohibition is unclear. “Services in relation to hosting” could be broadly interpreted to include a wide range of services. It might mean providing advice and recommendations to an audit client as management considers the capabilities of various cloud infrastructure providers. It could also mean providing the cloud infrastructure service itself. As another possibility, it could include delivering a service or solution via the cloud such as a cloud-based SaaS. These have varying levels of threats to independence and clearly not all of these constitute assuming management responsibilities. For example, a professional accountant could reasonably conclude that licensing proprietary technology that is hosted either by a firm or network firm or a third-party service provider would be permissible as long as the functionality of the technology is permissible.

It is also unclear whether there is an intended difference between the terms “managing (directly or indirectly) the hosting of data” in paragraph 606.2 A1 and simply the “hosting of data” in other paragraphs. These concepts and definitions all need to be clarified to avoid inconsistent application of the provisions.

Deloitte Global also believes that the scope of the prohibition as proposed is too broad as it seems to cover hosting *any* data irrespective of whether it is the client’s source or primary data, or a copy of it. This prohibition also seems inconsistent with Section 350 of the extant Code which does not prohibit the custody of client assets. If the Board proceeds with a hosting related prohibition, it will be important to limit such prohibition to the hosting of the audit client’s source or primary data – or “data of record.” A firm or network firm should not be limited or prevented from hosting duplicate client data, for example for the preparation of a tax return in its tax return software, as this would not constitute a management responsibility.

To ensure there aren’t unintended consequences, such as prohibiting a firm or network firm from being able to collect and store client data required in order to provide a professional service, paragraph 606.3 A2 should read:

606.3 A2 The collection, receipt, ~~and~~ retention or hosting of data provided by an audit client to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

*Comments regarding the “operation of an audit client’s network security, business continuity and disaster recovery function”*

We note that business continuity and disaster recovery references in the second bullet of paragraph 606.3 A1 are not limited to the IT aspects of these functions. If the Board intends to be broader than IT systems, the provision would be better placed in paragraph 600.7 A3. If it is limited to IT, the wording should be clarified.

It is also unclear how this provision interacts with the revision in paragraph 606.4 A3 which provides that an example “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” includes “Supporting an audit client’s IT systems, including network and software applications.” It is important for the Board to clarify if “supporting” and “operating” networks are two different concepts and also explain when a self-review is created as opposed to the risk of assuming a management responsibility.

*Other comments*

The word "management" in par. 606.3(b) is redundant and we therefore suggest deleting it as follows:

"The client, through a competent individual, preferably within senior management, makes all ~~management~~ decisions that are the proper responsibility of management with respect to the design, development, implementation, operation, maintenance, monitoring, or updating of the IT systems"

**(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?**

*Withdrawal of presumption*

Deloitte Global does not consider that a self-review threat is necessarily created by the configuration (as opposed to the customization) of a third party off the shelf accounting or financial information reporting software. However, we do not have a concern with the withdrawal of the presumption on the basis that the removal of the presumption does not result in a new prohibition. In other words, the professional accountant needs to undertake an assessment of threats and safeguards, but such assessment could still lead to the conclusion that configuring "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm, did not create a self-review threat if the configuration required to meet the client's needs is not significant.

Deloitte Global does not agree that (a) and (b) should be deleted in extant paragraph 606.4 A2. The explanatory memorandum only refers to the deletion of the presumption in (c). Both (a) and (b) should be restored.

*Proposed addition to 606.4A3*

Deloitte Global supports 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.

We have noted that the explanatory memorandum did not provide reasoning for the deletion of paragraph 606.6 A1 with examples of IT services that are prohibited because they will create a self-review threat. In fact, this paragraph is referred to in the explanatory memorandum as part of the revised NAS provisions that will become effective for audits of financial statements for periods beginning on or after December 15, 2022. We recommend for the Board consider if this deletion was intentional and appropriate.

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

As noted in the introduction, if the Board decides to proceed with including an extensive list of activities in paragraph 606.4 A3, the Board should consider defining these terms to ensure consistent application. It is unclear for example what services are encompassed by "implementing," and there are many other terms used in this paragraph and others that can be interpreted many ways (see prior comments about the use of "supporting" and "operating"). It also not clear why some activities create self-review threats, and some risk assuming management responsibilities. In particular, certain software maintenance or update activities can be quite routine and mechanical and should not be included as examples of services that might create a self-review threat.

*Other changes in Section 600*

*Amendment to 600.9 A2*

We note the Board proposed to add a third bullet point to 600.9 A2 to draw out that the client's dependency on the service, including the frequency with which the service will be provided, is relevant in identifying the different threats that might be created by providing a NAS to an audit client, and in evaluating the level of such threats. Deloitte Global

does not support the wording as it is ambiguous, and it is unclear how it is to be interpreted or applied. For example, tax compliance services are recurring, and one could argue that a client is dependent on the service. How is the professional accountant required to use this factor in assessing whether the tax compliance services create a threat to independence? As per the Code's requirements in extant paragraph R600.8 (updated paragraph R400.14(a)), while the management should possess the skill to understand the objectives, nature and results of the activities and the respective responsibilities, they are not required to possess the expertise to perform or re-perform the activities. As such, the Code essentially acknowledges the client's dependency on a firm as a service provider – making this a difficult factor to apply in the assessment.

*New paragraph 606.2 A1*

The Board has expanded the notion of IT systems services beyond “design and implementation” and has set out a long list of examples of what constitutes an IT systems service. Despite including such long list of terms, the description is still not to be considered a complete list as it is merely a list of examples included in the broad range of services that are IT systems services, which is also evidenced by the use of bullet point list rather the lettered list. Since the Board does not intend to include all potential services included in this range (which Deloitte Global supports), it seems unnecessary to include such a lengthy list of activities in the provision, especially since this might give the impression that the list intends to be comprehensive and anything not included is not covered by the subsequent provisions in the Section. Furthermore, the decision not to define the terms included may result in subjective interpretation and potentially not applying to an activity where a term is not listed. For those reasons, we urge the Board to limit and define the terms included in the proposed revisions, in particular considering that the terms used here are already used in other parts of the Code and not always consistently which might lead to different interpretation and application.

*Amendments to paragraph 606.3*

Deloitte Global does not have concerns with the concepts in proposed paragraph 606.3 regarding the risk of assuming management responsibilities when providing IT systems services. However, we make the same observation as in other places about the addition of many new terms (design, development, implementation, operation, maintenance, monitoring, or updating) which are used differently in other paragraphs. We do not see the benefit of specifying different types of activities but rather see a risk that an activity could be missed as not specifically included. Rather, we suggest a simpler approach requiring the client to make all management decisions [...] with respect to the IT systems services.

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

The comments made above about the proposed changes to Part 4A also apply to the corresponding amendments in Part 4B. Deloitte Global has no additional comments about the proposed changes in Part 4B.

**Effective date**

Deloitte Global requests that the Board consider a reasonable transition or grandfathering period for existing technology agreements that would become impermissible if it proceeds with new broad prohibitions. Technology agreements are usually entered into on a long-term basis and transitioning to other service providers can have significant operational and financial impacts on an organization.

\* \* \*

We would be pleased to discuss our comments with members of the IESBA or its Staff. If you wish to do so, please feel free to contact Ms. Denise Canavan via email ([decanavan@deloitte.com](mailto:decanavan@deloitte.com)) or at +1 203 563 2759.

Sincerely,

*Deloitte Touche Tohmatsu Limited*

Deloitte Touche Tohmatsu Limited