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Mr. Ken Siong
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue
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22 June 2022

Exposure Draft: Proposed Technology-related Revisions to the Code

Dear Mr. Siong,

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, is pleased to comment on the International Ethics Standards Board for Accountants' (the "IESBA" or the "Board") Exposure Draft, *Proposed Technology-related Provisions to the Code* (the ED).

Eleven specific questions were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below.

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?

Yes, we support the proposals that set forth relevant considerations for identifying threats to compliance with the fundamental principles when a PA uses technology and relies on its output. We agree that using technology and relying on its output has the potential to create threats to compliance with the fundamental principles, and we are supportive of including examples of considerations that are relevant to the PAs identification of such threats. The technology that a PA will encounter will span a broad spectrum of sophistication. For example, a commercially available spreadsheet program is less sophisticated in its functionality than artificial intelligence software. We see the level of sophistication as an additional consideration that could be listed in proposed paragraphs 200.6 A2 and 300.6 A2 as a separate bullet point. Indeed, the level of sophistication would have a bearing on some of the other considerations included in the proposed paragraphs. As an example, the relevance of considering the availability of information about how the technology functions, as noted in the first bullet point of proposed paragraphs 200.6 A2 and 300.6 A2, might vary depending on how sophisticated the technology is.

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?

We support the proposed revisions in proposed paragraphs R220.7, 220.7 A2, R320.10 and 320.10 A2.

We note that the 5th bullet point of both proposed paragraphs 220.7 A2 and 320.10 A2 relates to whether the new technology has been appropriately tested and evaluated for the purpose intended. However, it is not clear whether this is suggesting the PA, or the PA's employing organization, should perform the testing and evaluation. Adding a similar statement as the one included in extant paragraphs 220.7 A1 and 320.10 A1 that "Such/that information might be gained from prior association with, or from consulting others about. . ." would be both appropriate and helpful.

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 do not believe the proposed application material relating to complex circumstances is necessary. During the September 2020 IESBA board meeting, the Technology Task Force discussed the distinction between the concepts of "complicated" and "complex", noting that complicated circumstances are typical in the professional activity of a PA and can generally be overcome by obtaining the necessary technical competencies as required by the Code, while complex circumstances are more challenging to address. We believe that the Code's conceptual framework sufficiently addresses both complicated and complex matters, specific through compliance with the fundamental principle of professional competence and due care. Complying with the fundamental principle of professional competence and due care does not require a distinction between complicated and complex matters, since in the case of both the PA is required to attain and maintain the professional knowledge and skills that are necessary to provide competent professional service.

4. Are you aware of any other considerations, including jurisdiction-specific translation considerations, that may impact the proposed revisions?

We agree with the IESBA's comment in paragraph 26 of the Explanatory Memorandum (EM) that the terms "complicated" and "complex" are often used interchangeably, and therefore we believe that a user of the Code may not understand the distinction that drove the initiative to include revisions highlighting the need to specifically consider complex circumstances. If the proposed paragraphs 120.13 A1 to A3 are ultimately included in the Code, the Board should consider including a statement in proposed paragraph 120.13 A2 that matters that do not involve all of the listed facts and circumstance, and therefore do not rise to the level of being complex, can generally be addressed by applying other relevant requirements and application material of Section 120. Otherwise, there might be a risk of diluting the significance of the need to specifically consider complex circumstances if a user of the Code perceives no distinction.

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 paragraphs R113.3, respectively?

Yes, we support the proposed revisions in proposed 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?

Yes, we agree with the IESBA's position to not include an explicit reference to standards of professional competence such as the IESs in the Code. We support the position of the IESBA, as noted in paragraph 30 of the EM, that PAs are already required under the extant Code paragraph R113.1 to attain and maintain the necessary professional knowledge and skill to perform their professional activities, and this is adequately supported by the application material in extant paragraph 113.1 A2.

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 included in paragraphs 114.1 A1 and 114.1 A3. We believe these revisions are helpful and are responsive to the ever-increasing importance placed on the treatment of confidential information.

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?

Yes, we agree that "privacy" is sufficiently addressed by national laws and regulations and does not need to be explicitly included as a requirement in the proposed definition of "confidential information."

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?"
(b) The additional proposed examples to clarify the technology-related arrangements that constitute a close business relationship in 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?

We are generally supportive of the proposed revisions to the International Independence Standards and have addressed the specific question under points (a), (b) and (c) below. In addition to these comments, we also support the revision to paragraph 660.9 A2 to add a factor related to the client's dependency on the service. However, because the frequency with which the service is provided may not in all cases relate to the dependency of the client on the service, we propose that these should be listed as separate points.

9.(a)

With regard to proposed paragraph 400.16 A1, it is important to understand the context in which technology is employed when considering how this application material is to be applied. With developments in technology, many of the professional service activities historically performed by a PA can now be performed by technology (i.e., automated services). This can be contrasted with situations in which a PA is performing the professional service activity but is using technology internally to aid or assist the PA in performing the professional service activity. It would appear that in proposed paragraph 400.16 A1 the Board is trying to address those situations in which the technology is performing an activity or function and takes the place of a PA in providing the professional service activity to the audit client. In order to make this distinction clear, we propose the following edits to proposed paragraph 400.16 A1:

- 400.16 A1 When activities or functionality that comprise the professional service are performed by technology ~~is used in performing a professional activity~~ for an audit client, the requirements in paragraphs R400.15 and R400.16 apply regardless of the nature or extent of such use of the technology.

With regard to proposed paragraph 601.5 A2, it is not readily clear what is intended by including as a consideration "whether the technology is based on expertise or judgments of the firm or network firm." In developing technology, the developer will necessarily use expertise and apply judgements in the development process. Therefore, including this phrasing would seem to indicate that proposed paragraph 601.5 A2 is suggesting that technology developed by a firm or network firm would not be considered as routine or mechanical because the firm had applied its expertise and judgement in the development of the technology. It would seem that the more relevant consideration is whether the technology provides as part of an automated service the expertise or judgements of the firm or network firm. If the technology provides the expertise or judgement of the firm or network firm, it would not meet the criteria of routine or mechanical as set out in paragraph 601.5 A1. We therefore propose the following edit to proposed paragraph 601.5 A2:

- 601.5 A2 Accounting and bookkeeping services can be either 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~~ provides an automated service that includes the expertise or judgements of the firm or a network firm.

9.(b)

We support the additional proposed examples to clarify the technology-related arrangements that constitute a close business relationship in paragraph 520.3 A2.

9.(c)

We agree that the NAS provisions are relevant when a firm provides, sells, resells or licenses technology that performs NAS (see also our response to question 9, part (a) above). When the technology performs a function or activity that takes the place of a PA in providing the professional service activity to the audit client, we believe Section 600 of the Code must be considered. Likewise, we agree that selling, reselling or licensing technology (for purposes of our response only, we will refer to these activities collectively as “distributing”) has the potential to create a business relationship. This is because when technology is distributed, there is typically contractual terms and conditions between the firm that distributes the technology and the end customer that are specific to the distribution of the technology, for example an end user license agreement, warranty provisions related to the technology, and liability provisions for losses or damages stemming from the use of the technology.

However, we believe that proposed paragraphs 520.7 A1 and 600.6(b) are too broadly formulated and create a risk of the application material being misunderstood, and therefore applied incorrectly. We believe there are a number of factors that would need to be considered in determining whether or not the distribution of technology creates a close business relationship or represents a non-assurance service, and therefore subject to the requirements and application material of Sections 500 and 600, respectively. These factors would include, among others, whether the technology is owned by the firm or by a third party; whether or not the firm is a party to the end user license agreement, warranty and liability provisions, etc., that are specific to the technology; whether or not the distribution of the technology is an integral component of a professional service being provided by the firm; whether or not the firm has other obligations related to the technology, for example maintenance, hosting, etc. We believe guidance on considering such factors could be provided outside of the Code, for example in non-authoritative materials. But we propose the following edits to proposed paragraphs 520.7 A1 and 600.6 which we believe will enhance their clarity:

- 520.7 A1 If a firm or network firm provides, sells, resells or licenses technology that performs activities or functionality that comprise a non-assurance service to an audit client, the requirements and application material in Section 600 apply.
- 600.6 The requirements and application material in this section also apply in those circumstances where:
- ~~(a) A firm or a network firm uses technology to provide a non-assurance service to an audit client; or~~
 - (b) A a firm or network firm provides, sells, resells, or licenses technology that performs activities or functionality that comprise a non-assurance service to an audit client.

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?
- (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 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?

10.(a)

We support the prohibition on hosting of an audit client’s data, the operation of an audit client’s network security, business continuity and disaster recovery function. However, we do not believe it is appropriate to consider that providing services “in relation to” hosting results in the assumption of a management responsibility, because this would suggest that providing advisory services related to hosting (for example, vendor selection services for a hosting platform, providing benchmarks on capacity requirements, etc.) would be prohibited. In order to clarify the prohibition, we propose the following edits to proposed paragraph 606.3 A1 using the terminology from paragraph 606.2 A1:

- 606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or network firm:
- ~~Provides services in relation to the hosting (directly or indirectly) of an audit client’s data. Stores data or manages (directly or indirectly) the hosting of data on behalf of the audit client.~~
 - Operates an audit client’s network security, business continuity or disaster recovery function.

10.(b)

Yes, we support the withdrawal of the presumption in extant subparagraph 606.4 A29c) and the proposed revisions included in proposed paragraph 606.4 A3.

10.(c)

Yes, we support the other examples of IT system services that might create a self-review threat in proposed paragraph 606.4 A3. We recognize that the IT system services listed in proposed paragraph 606.4 A3 are all-encompassing, and that all such service performed on IT systems that impact or interact with the audit client’s accounting records, internal controls over financial reporting or financial statements might create a self-review threat. As such, these services are prohibited for PIE audit clients, and for audit clients that are not PIEs will require an evaluation of the self-review threat and application of safeguards to address the self-review threat. Therefore, we do not believe it is necessary to further define the terms “designing,” “developing,” “implementing,” “operating,” “maintaining,” “monitoring,” “updating,” and “supporting” as used in these examples.

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

We support the proposed changes to Part 4B of the Code. Where our comments and suggested edits above would likewise be applicable to the proposed revisions to Part 4B, these should be taken into consideration.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Tone Maren Sakshaug (tonemaren.sakshaug1@qa.ey.com) or John Neary (john.neary1@ey.com).

Yours sincerely,

Ernst + Young Global Limited