



PROPOSED TECHNOLOGY REVISIONS TO THE CODE OF ETHICS

Issued 17 June 2022

ICAEW welcomes the opportunity to comment on the exposure draft on Proposed Technology-Related Revisions to the Code published by the International Ethics Standards Board for Accountants on 18 February 22, a copy of which is available from this [link](#).

For questions on this response please contact our Ethics team at representations@icaew.com quoting REP 50/22

1. ICAEW is supportive of attempts to update the Code to provide guidance for Professional Accountants on how to manage the increasing challenges posed by technology across the spectrum of their work.
2. However, ICAEW considers that the proposed revisions to the Code should go much further, and specifically address the challenges to the profession posed by automated decision making and the use of algorithms (with potential for inherent biases).
3. ICAEW would welcome greater emphasis in the Code on the need for Professional Accountants to ensure they fully understand (and can explain) the way decisions have been made.
4. ICAEW would recommend that the Code should include a firm clarification that responsibility for decisions and judgements (including those derived from material produced by artificial intelligence systems) ultimately rests with the Professional Accountant.
5. ICAEW has reservations about importing an ethical requirement on individuals to have 'good communication skills' into the Code. This may inadvertently create barriers to entry for individuals into the profession and may adversely impact the range of skill sets available to audit teams. ICAEW considers that Professional Accountants should have the communication skills that are appropriate to the tasks that they are actually performing, and that there should be effective two-way communication between the team (as a whole) and the client.
6. ICAEW considers that the issue of whether hosting client data automatically leads to the assumption of 'management responsibility' is complex and recommends that more detailed application material be provided to clarify the scope of the proposed prohibitions.

This ICAEW response of 17 June 2022 reflects consultation with ICAEW technical committees including the Ethics Standards Committee and the Practice Committee, both of which include representatives from public practice and the business community. The Ethics Standards Committee is responsible for ICAEW policy on ethics issues and related submissions to legislators, regulators and other external bodies.

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KEY POINTS

1. ICAEW is supportive of attempts to update the Code to provide guidance for Professional Accountants on how to manage the increasing challenges posed by technology across the spectrum of their work.
2. However, ICAEW considers that the proposed revisions to the Code should go much further, and specifically address the challenges to the profession posed by automated decision making and the use of algorithms (with potential for inherent biases).
3. ICAEW would welcome greater emphasis in the Code on the need for Professional Accountants to ensure they fully understand (and can explain) the way decisions have been made.
4. ICAEW would recommend that the Code should include a firm clarification that responsibility for decisions and judgements (including those derived from material produced by artificial intelligence systems ('AI')) ultimately rests with the Professional Accountant.
5. ICAEW considers that the distinction between 'complex' and 'non-complex' circumstances is unhelpful, and the focus should instead be on the nature of the risk faced by Professional Accountants and the actions required of them, rather than the perceived nature of the circumstances in which they are said to be operating.
6. ICAEW has reservations about importing an ethical requirement on individuals to have 'good communication skills' into the Code. This may inadvertently create barriers to entry for individuals into the profession and may adversely impact the range of skill sets available to audit teams. ICAEW considers that Professional Accountants should have the communication skills that are appropriate to the tasks that they are actually performing, and that there should be effective two-way communication between the team (as a whole) and the client.
7. ICAEW considers that the issue of whether hosting client data automatically leads to the assumption of 'management responsibility' is complex and recommends that more detailed application material be provided to clarify the scope of the proposed prohibitions.

ANSWERS TO SPECIFIC QUESTIONS

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 the use of technology by a Professional Accountant might create a threat to compliance with the fundamental principles in proposed paragraphs 200.6 A2 and 300.6 A2.

Are there any other considerations that should be included?

8. ICAEW strongly supports the principle that 'Professional Accountants should apply the same ethical standards to technology issues as to other parts of their professional activities.' In some respects, it might be simpler to state this upfront, rather than to revise individual sections of the Code. ICAEW also notes that some of the proposed revisions are already set out in national Data Protection legislation and is concerned about the potential for overlapping and conflicting obligations.
9. ICAEW considers that the application material should include specific issues to be considered by Professional Accountants, in relation to the training of AI systems. Such material should direct Professional Accountants to their responsibility to be informed about the training of such systems and any potential biases built into the AI system as a result of that process. There should be an obligation on Professional Accountants to understand the data sets that have been employed, and the formulas which underpin the creation of any algorithms used.
10. In particular, application material should remind Professional Accountants to remain aware that AI systems may take account of both correlation and causation when producing analysis

or recommendations. Such correlation may be based on inferences about individuals with protected characteristics which are not permitted under national equalities legislation.

11. ICAEW would emphasise that the issue of potential bias by AI systems is particularly important to understand; it is difficult to prove a negative-that a system is 'free from bias'. Just as individuals need to be aware of how their own sub conscious biases might influence the way in which they make decisions, AI systems and those who use them, must be aware of these potential biases too.
12. ICAEW would recommend the inclusion of a new kind of 'familiarity' threat. This threat arises not from familiarity with the client, but from familiarity with the software employed, combined with automation bias. Where a Professional Accountant uses the same technology repeatedly, there is a risk of expecting a particular outcome and seeing that as 'normal'. This is so even when a 'normal' output would be abnormal in a particular context.
13. Many analytics tools provide the user with visual or other overviews which either show a particular pattern of behaviour, or mark behaviour as 'high' or 'low' risk. This may result in a misleading outcome in circumstances where the Professional Accountant is not alive to the need to consider the context when assessing the results provided by the tool and chooses instead simply to accept the outcome most commonly seen as 'normal'.
14. For example, tools which analyse income and expenditure may be programmed to expect private-sector patterns of income and expenditure recognition. If these were to be applied in a public sector organization, one would expect these to flag year-end activity in public sector bodies as 'unusual', because they largely do not follow a private sector pattern.
15. Such tools might fail to correctly identify that public sector bodies are more at risk of incorrectly classifying capital costs as expenditure (and thus miss classification fraud) to avoid capital budget limits.
16. An auditor with a variety of clients, only some of which are public sector clients, might use such a tool and get a 'normal' reading, or a reading which would normally be expected in a private sector context. The concern is that the auditor might then fail to identify the fact that, in a particular public sector context, such a reading was in fact abnormal and therefore a risk.
17. To address this concern, ICAEW recommends that IESBA extend the second bullet point in paragraphs 200.6A(2) and 300.6A(2) as follows:
 'Whether the technology is appropriate for the purpose for which it is being used, and the accountant has adapted their approach to the technology to reflect the specific circumstances of use, to avoid mistakes arising from overfamiliarity with technology'.

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, 220.7A2, R320.10 and 320.10 A2?

Are there any other considerations that should be included?

18. ICAEW considers that the revisions should state explicitly that ultimate responsibility for judgements and decision making (including those derived from material produced by artificial intelligence systems) remains clearly with the Professional Accountant.
19. Where the Professional Accountant is satisfied about the data analysed and the process used to analyse it, including any inherent potential bias within the AI system, it may in some circumstances be acceptable to delegate routine decision making to an automated system.
20. However, it would never be acceptable for a Professional Accountant to abrogate completely all responsibility for decision making to a system.
21. Decisions must be explainable. As such, Professional Accountants have a professional duty to understand the data behind the decision; the rationale for the decision; and the important steps in the process which resulted in the decision.

22. In turn, it should be possible to trace a decision back to the data which underpinned it, and to understand the implications of any in-built shortcomings or ‘bias’ in the data which has been fed into the decision-making process.
23. ICAEW considers that the wording in proposed new paragraph 220.7 A2 should make reference to potential conflicts of interest in relation to experts.
24. It is frequently the case that experts available to accountants will have commercial interests in specific technologies. Quite often, it is only the technology firms or vendors that will have a detailed understanding of such technologies.
25. The field of AI is now so diverse that simply seeking an ‘AI expert’ is no longer sufficient. Professional Accountants are increasingly required to identify an expert in a particular sub-set or application of AI. Often the most available experts are those with a commercial interest in a specific technology. This can make identifying and relying on independent expertise very hard for the Professional Accountant.
26. As such, ICAEW recommends that this paragraph should include an obligation on Professional Accountants to consider potential conflicts of interest related to experts, and to reflect on whether it would be appropriate or ethical to use a specific technology, in circumstances where independent expertise cannot be provided.
27. More generally, standard setters may want to consider whether the standards governing the use of experts need updating, or whether additional guidance should be provided particularly for Professional Accountants who are not in practice, as to how to identify and assess experts in technology.

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 120.13A1 to A3?

28. ICAEW is not convinced that it is necessary or particularly helpful to create a distinction between ‘complex’ and ‘non-complex’ circumstances. Such a distinction is by its very nature, relative and subjective; individuals may have different views about whether a situation is complex or not. There is a danger of creating unnecessary and artificial silos in respect of factors that need to be considered in different scenarios (‘complex’ or ‘non-complex’ situations); and thereby focussing on the circumstance, instead of the actions which is required of the Professional Accountant.
29. ICAEW considers therefore that it might be more helpful to frame the issue in terms of risk, rather than complexity.
30. As such, the underlying message could be simplified; ‘assess the potential risk profile of the work to be undertaken; know your capabilities; and do not take on work that you do not understand.’ This ties in with the need for Professional Accountants to be able to understand and be able to explain- the data behind automated decision making.
31. ICAEW is concerned that the reference to ‘**demonstrating** ethical behaviour’ in new paragraph 120.14. A3(b) may be interpreted as a requirement to collate evidence for the audit file; and may well create a mini-cottage industry geared towards ‘demonstrating’ compliance.
32. We understand that this was not the intention and consider that it might be preferable instead to require Professional Accountants to ‘**Act ethically** when dealing with business organisations...’

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?

33. ICAEW is not aware of any other considerations.

Professional Competence and Due Care

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

34. We noted that proposed paragraph 113.1.A1 is phrased in a general way as to the skills required including ‘communication and organisational skills’. Such skills relate to the service team as a whole and not to individual members of the team. The Ethical Code however relates to individual Professional Accountants. As such ICAEW has reservations that it could be read as implying that there is an ethical requirement on all individual Professional Accountants to have ‘good communication skills’. This may inadvertently create barriers to entry for individuals into the profession and may adversely impact the range of skill sets available to audit teams. ICAEW considers that Professional Accountants should have the communication skills that are appropriate to the tasks that they are actually performing, and that there should be effective two-way communication between the team (as a whole) and the client.

QUESTION 6. Do you agree with the IESBA proposal 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?

35. ICAEW agrees with this proposal. The standards of professional competence are implicit throughout this section; referencing them here would be redundant.

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.A1 and 114.1 A3; and**
- b) **the proposed Glossary definition of ‘confidential information’?**

36. ICAEW would welcome clarity about whether the provision extends to the use of data for AI systems training or would prohibit the use of data that had been anonymised. ICAEW also has concerns about whether the inclusion of the term ‘other material’ (not being ‘data’ or ‘information’) in the glossary might prove problematic to interpret.
37. ICAEW considers that in relation to paragraph 112.1.A2, it would be helpful to include examples of when it could be appropriate for Professional Accountants to seek consent to share confidential information for the purposes of developing new technology, where appropriate safeguards are in place.
38. Currently, the presumption of confidentiality has the effect of making firms wary of seeking consent, even for the use of pseudonymized data for collaborative research. ICAEW considers that guidance indicating that this would be permissible (given appropriate safeguards) would be welcome and that this would help with cross-industry activities to create new technology-focused quality norms.
39. ICAEW notes that the definition of ‘confidential information’ applies to material that is not in the public domain. There is a potential concern that the wording could be misinterpreted to mean that where another party does put information in the public domain (including with deliberate intent), then the ethical principle of confidentiality would no longer apply.
40. ICAEW considers that it would be helpful to clarify that the duty to preserve confidentiality extends to seeking assurance over third party software providers, especially those providing cloud-based services.
41. We believe that there is a lack of awareness amongst some Professional Accountants that using data within a third-party cloud-hosted tool may also be ‘giving access to information’ to third-parties, especially where that third-party tools data mines or uses the data input to train

AI. We consider that there should be an explicit requirement for Professional Accountants to confirm with third-party technology providers that the providers are not utilising data disclosed confidentially for purposes not agreed by their clients.

QUESTION 8. Do you agree that ‘privacy’ should not be explicitly included as a requirement to be observed by Professional Accountants in the proposed definition of ‘confidential information’ in the Glossary because it is addressed by national laws and regulations which Professional Accountants 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)?

42. ICAEW agrees with this proposal.

Independence (Parts 4A and 4B)

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

- c) *The proposed revisions in paragraphs 400.16A1, 601.5A2 and A3 relating to ‘routine or mechanical’ services.*
- d) *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.*
- e) *The proposed revisions to remind Professional Accountants providing, selling or licensing technology to an audit client to apply the NAS provisions in Section 600, including its subsections (see proposed paragraphs 520.7A1 and 600.6).*

43. ICAEW agrees with these proposals.

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 606.3A2)?*
- b) *The withdrawal of the presumption in extant sub-paragraph 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 system service that might create a self-review threat in proposed paragraph 606.4 A3?*

44. ICAEW supports the proposed revision relating to 606.4A3

45. However, the issue of hosting services and management responsibility is potentially complex in practice and may be dependent on the specifics of the agreement between the entity and the audit firm providing the services. As such, ICAEW recommends that more detailed application material should be provided to make the scope of the proposed prohibition clear from any ambiguity.

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

46. ICAEW agrees with the proposed changes to Part 4B of the Code.

47. In relation to paragraph 900.14.A1 (‘Services that may constitute a management threat’), further explanation would be welcome as to why the ability to monitor or engage technology for assurance purpose is rightly recognized as not being a management threat. This is particularly the case in light of the rapid progress towards implementation of real-time audit, and the increasing potential of threats where an auditor is using predictive analytics to identify nascent problems.

48. In such circumstances, guidance in relation to how to avoid creating a management threat when identifying upcoming audit problems through real-time monitoring of financial and operational data will be critical. An example might be to include guidance on what to do in circumstances where the auditor's real-time audit software flags transactions as a fraud risk which management has not detected.

EXPOSURE DRAFT –REQUEST FOR GENERAL COMMENTS

49. ICAEW has no further comments on these areas.