

The International Ethics Standards Board for Accountants
529 5th Avenue
New York
New York 10017

Submitted Electronically

24 May 2022

Dear Ken Siong

Proposed Technology-related Revisions To The Code

The Financial Reporting Council (FRC) welcomes the opportunity to comment upon *Exposure Draft, Proposed Technology-related Revisions To The Code*.

We are strongly supportive of the aim of the IESBA to update the Code to ensure that it is reflective of the rapidly evolving use of technology by professional accountants. Technology is often at the forefront of discussion between regulators and professional accountants. Enhancements to international codes and standards are important for effective and compliant deployment of technological resources in a way that meets the expectations of our stakeholders.

We are supportive of the additions made to the Code that relate to the licencing of technology and the provision of technology related non-audit services. These revisions are in line with the FRCs experience of the most appropriate ways to address threats to the fundamental principles.

The FRC is supportive of the need for additional material in the Code that relates to complexity. However, we believe that further work is required in order to ensure this material is practical and consistent with how complexity is addressed in other professional standards, such as the International Standards on Auditing (ISAs). Complexity has always been an inherent risk factor in the professional accountant's work, with a broad range of both technological and non-technological factors contributing to potential complexity in an engagement. We believe that IESBA should align with the IAASB's approach to and description of complexity in revised ISA 315.

The FRC does not agree that the use of the output of technology is conceptually close enough to the use of the work of an other/expert for the proposed additions to be included within the same section of the Code. In addition, we do not support the emphasis on the term "Output of Technology", as the professional accountant rarely relies solely upon the output of a technological tool; instead, they are invariably involved at each stage in the scoping, implementation, and refining of a tool's operation.

Some of the suggested material, for example in relation to complexity, interpersonal and organisational skills, does not relate solely to technology and the FRC believes this should be reflected in the revisions to the Code.

The FRC would also support additional clarity on how the on-going work of the IESBA Technology Working Group could lead to additional changes to the Code, or if their focus is on additional guidance. If substantial future changes are anticipated as a result of the work of the group, then the IESBA should consider the potential timescale of this given this Exposure Draft.

Our detailed responses to each of the IESBA's consultation questions, including any further enhancements we propose, are set out in Appendix 1. We have also included some editorial suggestions and additional material in Appendix 2. If you have any questions about our response or wish to discuss any of our observations in more detail, please contact me or Jason Bradley (j.bradley@frc.org.uk) by e-mail.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'J. Ferris', is centered on a light gray rectangular background.

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Appendix 1: Responses to the questions set out in the Explanatory Memorandum

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?

- The FRC supports the proposal to include additional material which requires professional accountants to consider how technology may create threats to compliance with the fundamental principles. Proposed paragraphs 200.6.A2 and 300.6.A2 include many of the considerations that a professional accountant should be aware of when determining the potential impact of technology, though we have included a number of additional factors that we believe are important for the professional accountant to consider in our editorial suggestions included within Appendix 2.

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?

- The FRC understands the appeal of addressing the factors to be considered when relying on, or using, the output of technology by linking this conceptually to the use or, or reliance on the work of others/an expert.

The FRC does not however agree that these aspects of a professional accountant's work are sufficiently similar for the proposed material to be included within the same sections of the Code. We also do not support the emphasis on the term "Output of Technology" as the professional accountant would rarely be relying solely on the output of a technological tool. Instead, they will be involved at each stage in the scoping and implementation of a tool, as well as interpreting its outputs.

- The FRC agrees that the material included in paragraphs 220.7.A2 and 320.10.A2 is a reasonable starting point for addressing how professional accountants make use of the output of technology in engagements but we believe the challenges professional accountants face could be better addressed if the material was presented in a discrete section and revised to ensure it reflects the unique challenges that the use of technology brings to the professional accountant. We believe this would improve the useability of the Code and make the factors that need to be considered clearer, and as such we have made editorial suggestions in Appendix 2.
- When making use of or relying on the work of others/an expert, a professional accountant is relying on an individual or organization's intrinsic expertise in relation to a specific subject matter, their experience, skills, qualifications, and judgements to assist in their work, drawing conclusions based on reports or other works prepared by the expert. Additionally, many of the experts professional accountants make use of are themselves governed by professional standards, whereas technology is not.

Technology, and the outputs from it, are tools which are used by a professional accountant. Technological resources do not make judgements or rely on skills or experience and have no

intrinsic expertise. The quality of the output is highly dependent on both quality of the input data and the skills and experience of the individual deploying the tool.

- Experts will undertake a process as agreed with the professional accountant and will provide a conclusion or recommendation at the end of that process, such as when a professional accountant engages an actuary to comment on the reasonableness of judgements made in a pension valuation. Technological resources also carry out a process, such as analyzing data to identifying high risk transactions¹, but the tool generally does not form and present conclusions. It is the professional accountant who must interpret the results of a tool in order to understand the implications for the engagement. The emphasis on the use of the output of the technology, rather than on the whole process for making use of a technological resource is not the most effective approach to ensuring appropriate use of technology resources.
- Paragraph 220.7.A2 includes "*The professional accountant's ability to understand the output from the technology for the context in which it is to be used*" as a factor in determining if using the output of technology is reasonable.

The IESBA should include material on the factors that a professional accountant considers when they are unable to understand the outputs themselves, but maybe be able to make use of an expert in the technological resource being deployed, for example when making use of a data scientist, either from a firm's in-house team or externally engaged, when deploying data analytics software. This use of experts in the technological resource being deployed is already commonplace, and material on this would facilitate consistent application of the fundamental principles of the Code.

- Finally, paragraph 220.7.A2, and the title of this section, refers to a professional accountant "relying" on the work of others, whilst 320.10.A2 refers to the "use" of the work of others. Though this is not a new distinction, and it is already referred to in this way in the extant Code, it would be beneficial for the Code to clearer as to the rationale for this difference in terminology both in the context of the use of output of technology and more broadly when others/experts are involved in an engagement

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?

- The FRC is broadly supportive of the intent behind the additional material in paragraphs 120.13.A1 to A3 and we are pleased to note that Complexity has not been introduced as an additional fundamental principle as was suggested as a possible approach in the IESBA Technology Surveys².
- The majority of the material included in paragraphs 120.13.A1 to A3 does not however relate to the use of technology by the professional accountant, with only one bullet within 120.13.A3 specifically addressing technology related concerns. Accordingly, this is a proposed revision that goes beyond addressing technology related issues and as such the rationale for including this material should be explained more clearly in due course in the basis for conclusions.
- There are many circumstances which might make an engagement more complex, and the most relevant fundamental ethical principle is professional competence and due care. The professional accountant is required to ensure³ that they have the requisite skills and experience required to undertake an engagement before they accept it. The proposed new material does not explicitly

¹ We discuss this in detail in the FRCs guidance on [Addressing Exceptions in the use of Audit Data Analytics](#)

² IESBA Technology Surveys, October 2020

³ International Code Of Ethics for Professional Accountants, subsection 113.

link to professional competence and due care, which is important to ensuring complex circumstances are properly addressed by the professional accountant.

- Finally, IAASB's revision of ISA 315 includes "complexity" as one of the "inherent risk factors" relating to the preparation of information require by the applicable financial reporting framework. It would be helpful if there was an explanation as to why the proposed Code revisions do not describe it in the same way and instead provides what is a more prescriptive approach to defining complexity which could be problematic by either including matters that are not in practice complex or excluding matters that are. We would support the IESBA aligning with the ISA 315 approach⁴. This would be more beneficial, easier to apply in practice and encourage a great degree of convergence between approaches in the Code and the ISAs.

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?

- We are not aware of any additional considerations, including any jurisdiction specific translation considerations.

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?

- The FRC does not have a strong view over the inclusion of the additional material in paragraph 113.1.A1, though the general drafting can be improved by making it less generic and note that this material does not relate specifically to a professional accountants use of technology or the concept or complexity. We are supportive of the addition to paragraph R113.3.
- As discussed above, the Code should be revised to include material that recognises that when considering the use of technology, the professional accountant should consider the need for the use of an expert in the tool being deployed in order to facilitate effective deployment of the technological resources. This is discussed in more detail in our responses to questions 1 and 2 above.

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?

- The FRC agrees with the decision to not include additional application material.

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?"

⁴ ISA 315 *Identifying and Assessing the Risks of Material Misstatement*, Appendix 2, paragraph 2

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)?

- The FRC does not agree that privacy should be excluded from the Glossary definition of “confidential information”. Privacy and the original data owners intentions are important concepts for a professional accountant to consider when potentially making use of confidential information. In this scenario, the FRC believes that a professional accountant would have to carefully consider if, and how, it would be possible to make use of such “leaked information” in a way with does not conflict with the fundamental principles.
- Whilst it is true that many jurisdictions have robust laws and regulations in respect of privacy, others do not. Even amongst those with established regulation, definitions and the extent of protections will vary considerably. By excluding “privacy” from the definition, this potentially creates equivalency and consistency problems, particularly when professional accountants are undertaking cross-border engagements.
- The FRC suggests that the IESBA consider revising the Glossary definition of “confidential information” to ensure it is consistent with established definitions and takes account of both privacy and intent and to include material on factors professional accountants should consider when undertaking cross-border engagements. We also note that “public domain” is not a defined term and may be interpreted differently across jurisdictions.

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. See also paragraphs 40 to 42 of the explanatory memorandum.
- (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).

- Overall, the FRC is supportive of the changes made to Parts 4A and 4B.
 - a) We support the addition of paragraphs 400.16.A1. This codifies what many professional accountants have, based on our experience, taken as the position on a principles basis. We don’t disagree with the addition of paragraph 601.5.A2, though caution should be taken to ensure that readers do not equate “automated” with “routine or mechanical”.

There are many processes that have a degree of automation which are not routine or mechanical, and there is likely to still be substantial human input as some stages of an “automated” process, including review of outputs. Additionally, the phrase “how the technology functions” is quite generic, and we would support the inclusion of more specific factors for consideration, potentially with an example.
 - b) We support the proposed examples.
 - c) As above, we are supportive of the clarity provided by the proposed revisions to paragraphs 520.7.A1 and 600.6 and agree that the NAS provisions should apply to the provision, sale,

resale, or licensing of technology to audit clients. Our experience indicates that this is widely understood to be the case in practice and these revisions to the Code support already established approaches to this issue.

We would however encourage the IESBA to include additional clarity on “indirect” provision of services as we have encountered a number of scenarios where professional accountant firms have developed software for non-audit clients, who subsequently use this software to provide a service to the firms audit clients. In these scenarios identifying the subsequent threats to independence and objectivity is complicated and involves considering a number of factors.

This could be addressed with the addition of an example which covers the factors a professional accountant should consider in this situation.

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)?
- (b) The removal of the presumption in extant subparagraph 606.4 A2(c)⁵ 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 threat⁶ in proposed paragraph 606.4 A3?
- (c) The other examples of IT system services that might create a self-review threat in proposed paragraph 606.4 A3?

• Overall, the FRC is supportive of the proposed revision to subsection 606 and agrees that the revisions serve to modernize the terminology within this section, better reflecting current practice and the technologies used to undertake engagements.

- a) We support the prohibition on services relating either to hosting of an audit client’s data, or operating an audit clients network security, business continuity or disaster recovery functions. We agree that the provision of such services create an insurmountable threat to objectivity and independence.
- b) The extant reference to “off the shelf” is outdated and does not reflect the fact that most modern software packages require some degree of tailoring in order to function effectively in modern, data driven, entities. Additionally, many software as a service (SaaS) models require continual interaction between the software provider, which may be a professional accountants firm and the clients management, even when the software is itself “off the shelf”.

As such, we are supportive of the removal of paragraph 606.4.A2 and agree that the new paragraph 606.4.A3 is a sensible alternative.

⁵ Extant subparagraph 606.4 A2(c) states that “Providing the following IT systems services to an audit client does not usually create a threat as long as individuals within the firm or network firm do not assume a management responsibility: ... Implementing “off-the-shelf” accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client’s needs is not significant.”

⁶ This means that in the case of non-PIE audit clients, firms will need to apply the conceptual framework to address the threat. For PIE audit clients, the provision of such a service will be prohibited.

- c) We are supportive of the material included within 606.4.A3 and agree that “*Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems*” is sufficiently broad and captures the vast majority of potential information technology systems services that professional accountants may offer.

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

- The FRC is supportive of the changes made to Part 4B of the Code.

Appendix 2: Editorial Suggestions

Identifying Threats

200.6 A2 The use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. Considerations that are relevant when identifying such threats when a professional accountant relies upon the output from technology include:

- Whether information about how the technology functions is available to the accountant.
- Whether the technology is appropriate for the purpose for which it is to be used.
- Whether the accountant has the professional competence to understand, use and explain the output from the technology, and if not, if they are able to engage an expert to facilitate the effective deployment of technological resources in the engagement.
- Whether the technology incorporates expertise or judgments of the accountant or the employing organization.
- Whether the technology was designed or developed by the accountant or employing organization and therefore might create a self-interest or self-review threat.
- Whether the client has sufficiently high-quality data for the effective deployment of the technology being considered.