

20 June 2022

*Submitted electronically to:*

- <https://www.ethicsboard.org/exposure-draft/submit-comment?exposure-draft=292359>

Ken Siong  
Program and Senior Director  
International Ethics Standards Board for Accountants (IESBA)  
529 5<sup>th</sup> Avenue  
New York

Dear Ken

**Comments on the Proposed Technology-related Revisions to the Code (the IESBA's proposed Revisions)**

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national audit and ethics standard-setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in the Republic.

The IRBA adopted Parts 1, 3, 4A and 4B of the IESBA International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code). This was prescribed in November 2018 as the Code of Professional Conduct for Registered Auditors (the IRBA Code) in South Africa, with certain additional national requirements. The IRBA Code, with its Rules Regarding Improper Conduct, provides the basis for disciplinary action against registered auditors.

We appreciate this opportunity to comment on the IESBA's proposed Revisions.

Our response has been prepared by a Committee for Auditing Ethics' (CFAE) Task Group, which comprised technical staff representatives from auditing firms, the private sector and academics.

Our comments are presented under the following sections:

- A. Introduction;
- B. Request for Specific Comments and Responses; and
- C. General Comments.

If further clarity is required on any of our comments, kindly e-mail us at [smaseko@irba.co.za](mailto:smaseko@irba.co.za).

Yours faithfully,

***Signed electronically***

**Imran Vanker**

**Director: Standards**

**Sinethemba Maseko**

**Technical Assistant**

## **A. INTRODUCTION**

1. We welcome the IESBA's initiative to enhance the Code's robustness and expand its relevance in an environment constantly being shaped by rapid technological advancements. We also support the proposed amendments that will guide the ethical mindset and behaviour of professional accountants in public practice, as they deal with changes brought on by technology in their work and the content of the services they provide.
2. We also support the direction of the IESBA's proposed Revisions to:
  - Draw special attention to the professional competence and confidentiality imperatives of the digital age.
  - Address the ethical dimension of professional accountants' reliance on, or use of, the output of technology in carrying out their work.
  - Further enhance considerations relating to threats from the use of technology, as well as considerations relating to complex circumstances in applying the Code's conceptual framework.
  - Strengthen and clarify the International Independence Standards (IIS) with respect to technology-related non-assurance services (NAS) that firms may provide to their audit clients, or technology-related business relationships they may enter into with their audit clients.
  - Explicitly acknowledge that the IIS that apply to assurance engagements are applicable to assurance engagements on non-financial information, for example, environmental, social and governance disclosures.
3. However, our opinion is that there are areas where some terminology could be clarified and application material could be added to further improve the IESBA Code. Addressing these concerns would improve consistent application, with the goal of contributing to public trust and confidence in the accountancy and auditing professions.
4. We note that there are proposed revisions to the Code that are not specifically related to technology, such as those relating to complexity as well as professional competence and due care.
5. We have concerns relating to the revisions to professional competence and due care (paragraph 113.1 A1). While we understand that the execution of professional activities generally requires the application of soft skills, the phrase "interpersonal, communication and organisational skills" is likely to be interpreted differently by different professional accountants, leading to an inconsistent application in practice. We have noted one of the plausible interpretations of the term in the specific comments.

## **B. REQUEST FOR SPECIFIC COMMENTS AND RESPONSES**

### **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 Professional Accountant (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?

6. We support the proposals that 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 paragraph 300.6 A2.
7. The proposed revisions, however, give the impression that a PA is expected to have extensive IT expertise. We suggest that it be considered sufficient if the PA has access to the suitable IT expertise (regardless of whether this be in-house or outsourced).
8. We also suggest that the examples of safeguards in paragraph 300.8 A2 should include safeguards for when the PA relies on the output from technology. Examples of safeguards may include:
  - Where technology was designed or developed by the firm, proposed safeguards to reduce the threats could be an independent governance or accreditation process, to assess the quality and functionality of any tools the firm developed.
  - Formalised training programmes to ensure that the PA has the professional competence to sufficiently understand, use and explain the output from the technology (without necessarily being the subject matter expert on the IT system concerned).
9. Bullet 5 of paragraph 300.6 A2 links the consideration to a self-interest or self-review threat. It would be beneficial if all the proposed considerations were linked to the different threat categories, similar to paragraph 300.6 A1. This will make the considerations more practical.

## **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?

10. We 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 R320.10 and 320.10 A2. We suggest adding the following factor to paragraph 320.10:
  - “Training that the PA may have in the use of the technology.”
11. Bullet 5 in paragraph 320.10 A2 refers only to the appropriate testing and evaluation of new technology. We suggest that this consideration also be amended to include updates and upgrades to technology.
12. Furthermore, bullet 6 in paragraph 320.10 A2 refers to the reputation of the developer of the technology, if this is acquired from or developed by an external vendor. We do not support the reference to “reputation”, as that term is open to subjectivity. A developer might have a good reputation because of work performed for one company, while there could be errors in the development or customisation of the technology for another company. Reputation could also be considered tarnished by geo-political factors that are beyond the control of the external vendor. Though compliance with potential sanctions in such instances would be essential, in the absence of such sanctions one should be cautious to not unnecessarily veto the use of certain products/services purely on account of such extrinsic factors.
13. We suggest that the PA considers the developer’s competence and capabilities, rather than their reputation alone.

## 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?

14. We support the proposed application material relating to complex circumstances in proposed paragraphs 120.13 A1 to A3. While we accept the point made in paragraph 24 of the explanatory memorandum – that much complexity arises from situations that are not technology-specific – we suggest that the complexity often presented by technology is worth identifying explicitly. Perhaps, examples of complex matters can be included in the application material, which will then allow for instances such as those noted in paragraph 23 of the explanatory memorandum to be included.
15. Complexity is discussed only in section 120.13 of the Code. We are concerned that this new term is not applied in other sections of the Code, and suggest that references to, or considerations of, complexity be added in paragraph 300.6 A2.
16. To some degree, the perception of complexity is relative to the PA’s experience and level of competence. Despite the guidance provided in paragraph 120.13 A2, it appears that complexity may, to some degree, always exist because it is a relative term.
17. In the Working Group’s Phase 1 final report, which was issued in February 2020, complexities of the professional environment were clearly outlined with context. We therefore suggest that the first sentence under complexities of professional environments – “Professional Accountants today find themselves working in a complex operational, legal and regulatory environment, brought on by, amongst other factors, the impact of new technologies” – be included as a preamble to section 120.13 A1.

### 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?

18. We are not aware of any other considerations, including jurisdiction-specific translation considerations, that may impact the proposed revisions.

## 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?

19. We note that it is unclear whether these proposed revisions are related only to technology. Furthermore, we do have other concerns relating to these revisions. One concern is that, without further context in the Code, the phrase “interpersonal, communication and organisational skills” is likely to be interpreted in various ways by different PAs, leading to an inconsistent application in practice. Another concern is that one plausible interpretation of requiring interpersonal and communication skills is that a PA needs to have an extrovert personality type. We doubt that this is the intention for these revisions, and we encourage a

reconsideration of this.

20. We read the recommendations from the Working Group's Phase 1 final report for further context. We then recommend that the Working Group considers preparing non-authoritative guidance on the subject of professional competence and due care, highlighting the relevant considerations and examples pertaining to technology, to provide helpful context to stakeholders.

### **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?

21. We agree with the IESBA for not including additional new application material that would make an explicit reference to standards of professional competence, such as the IESs in the Code.

## **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?"

22. We support the proposed revisions relating to the description of the fundamental principle of confidentiality in paragraphs 114.1 A1 and 114.1 A3 and the proposed Glossary definition of "confidential information".
23. Global organisations in this digital age face further complexities arising from multi-jurisdictional laws and regulations that govern confidential information, as well as more cyber-security threats. We suggest that the Working Group prioritises these topics for Phase 2.
24. We also propose that application material be included in section 114 of the Code, to address the practical application of the definition of "confidential information" in cases where the information is unlawfully disclosed. This would assist in providing further context to the term "public domain".

### **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)?

25. We 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. This is because national laws and regulations address what PAs are required to comply with under paragraphs R100.7 to 100.7 A1 of the Code.

## **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.
- 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).

26. We support the abovementioned proposed revisions. However, regarding R601.5, we question whether the reference to “mechanical” is still appropriate, as this term overlaps with the new term “automated”. We suggest that “mechanical” be removed from the Code as “routine” is all-encapsulating and avoids ambiguity.

### **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)?
- b) The withdrawal of the presumption in extant subparagraph 606.4 A2(c)18 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?
- c) The other examples of IT systems services that might create a self-review threat in proposed paragraph 606.4 A3?

27. We support the above-noted proposed revisions. The first part of the revisions in paragraph R606.3 (b) refers only to an individual, but we believe that some clients’ governance structures may include a permissible arrangement in which this management responsibility is shared by two or more individuals. We therefore propose that “individual” be amended to “individual or individuals”.
28. We suggest that more examples should be included in paragraph 606.3 A1.
29. In relation to paragraphs R606.6 and 606.4 A3, the proposed revisions do not deal with the situation where a non-audit client becomes an audit client. We are also concerned about situations where the technology provided to a client gets so integrated that it might not be commercially possible or feasible for the client to remove it. Therefore, it is recommended that the revisions include references to possible transition periods or safeguards for these scenarios. Otherwise, this may result in a significant loss of choice of auditors for clients in jurisdictions where mandatory audit firm rotation exists (as in South Africa). Therefore, the Code may need to address this likely situation.

### **Question 11**

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

30. We support the proposed changes to Part 4B of the Code.

### C. REQUEST FOR GENERAL COMMENTS

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs) – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
- Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an audit inspection or enforcement perspective from members of the regulatory and audit oversight communities.
- Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.
- Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comments on potential translation issues respondents may note in reviewing the proposals beyond question 4 in the request for specific comments above.

31. We note that SMEs and SMPs should be held to the same ethical standard as other entities and practices. We do, however, acknowledge that the removal of paragraph 606.4 A2 might have an impact on firms.

32. We have no further general comments, other than what is already addressed in this letter.

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