



Technical Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York 10017

[Submitted via IESBA website]

20 June 2022

**IESBA Exposure Draft – Proposed Technology-related Revisions to the Code**

Dear Mr Siong,

**Introduction**

We<sup>1</sup> appreciate and thank you for the opportunity to comment on the IESBA's Exposure Draft (ED) Proposed Technology-related Revisions to the Code.

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<sup>1</sup> This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

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These proposed revisions are important to reflect the increasing use of technology by the profession and to provide member bodies and professional accountants with appropriate professional guidance.

We are generally supportive of the proposed changes. However we have provided, in Appendix 1, a number of observations on matters where we believe that some additional clarity is warranted or where guidance may be useful.

**Contact**

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact me at [samuel.l.burke@pwc.com](mailto:samuel.l.burke@pwc.com).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sam', is positioned below the 'Yours sincerely' text.

Sam Burke  
Global Independence Leader



## **Appendix 1: Requests for specific comments**

Our responses to the specific questions raised in the ED follows:

**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?**

We support the notion that use of technology might increase threats such as self-review or self-interest threats (e.g., reliance bias). However, we believe that the framework proposed is not sufficiently specific about the range of tools that may be used by a PA and the different threats to which they may give rise. For example, a PA may use a technology tool such as Microsoft Excel to summarize, filter and assess a population for purposes of selecting items for further evaluation which would present little threat to compliance with the fundamental principles. In contrast, if the PA uses an AI-based anomaly detection tool to identify potential fraudulent or erroneous management accounting on a real-time basis, this would present a far greater risk to compliance with the fundamental principles. If use of technology is to be added to the requirements and guidance, we believe that further investment should be made in fully describing the range of technologies that may be utilized and providing illustrative examples reflecting the spectrum of threats to compliance with the fundamental principles.

Separately, we are uncertain about the intent of “Whether the technology incorporates expertise or judgments of the accountant or the employing organization” (200.6 A2) and “Whether the technology incorporates expertise or judgments of the firm” (300.6 A2). We believe that developing technology will typically incorporate the expertise or judgments of the firm or supporting third party developer.

We also note that the discussion in the proposed bullets seems to combine, rather than address separately, scenarios where the professional accountant licenses technology to use and where the professional accountant develops and uses technology. This differentiation is important in identifying and assessing the threats to compliance with the fundamental principles.



**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?**

Yes, we broadly support the proposed application material, subject to the following observations:

**220.7 A2 and 320.10 A2:** We are not clear as to how the professional accountant should assess “The professional accountant’s ability to understand the output from the technology for the context in which it is to be used.” We recommend further guidance is added to explain whether this refers to the availability of training/user guides, ease of use, basic understanding of the technology, or whether this perhaps refers to the professional accountant having prerequisite knowledge to properly assess the tool output (e.g., industry knowledge or adequate experience to develop an independent expectation of a reasonable or unreasonable tool output). If the intent is to refer to the knowledge and experience of the professional accountant, we find this bullet from 220.6.A2 to be more helpful: “Whether the accountant has the professional competence to understand, use and explain the output from the technology.”

**220.7 A2 and 320.10 A2:** The fourth bullet in each of these paragraphs states: “Whether the technology is established and effective for the purpose intended.” It is unclear what is meant by “established” in this context. We would suggest deleting “is established and” from this proposed guidance.

**220.7 A2:** The seventh bullet in this section states: “The employing organization’s oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology.” Is this statement intended to relate to technology acquired/developed by an external vendor? If so, we recommend that it should be combined with the bullet directly above (sixth bullet in this section) which states “The reputation of the developer of the technology if acquired from or developed by an external vendor.” If the bullet is to address technology developed internally as well as externally, we suggest the following wording in order to grant some flexibility for different scenarios: “The employing organization’s extent of knowledge and oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology.”



**220.7 A3:** This provision states: “Another consideration is whether the professional accountant’s position within the employing organization impacts the accountant’s ability to obtain information in relation to the factors required to determine whether reliance on the work of others or on the output of technology is reasonable.” It is not clear to us what this proposed provision means. Is this intended to say that the ability of the individual to rely on the technology is related to their ability to have visibility into the factors included within 220.7 A2? If so, we recommend this be drafted to be clear.

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

Overall, we find the wording of 120.13 A2 difficult to understand and we are not sure what the reader will take from it. While we understand and appreciate the intent to better differentiate application of the Conceptual Framework in complex circumstances, we are not convinced that such complexity is sufficiently independent of the other characteristics already included in the Framework. We suggest that the Board instead consider embedding some or all of the recommended actions for managing the evolving interaction of facts and circumstances (paragraph 120.13 A3) into recommended actions for managing other circumstances already included in the application guidance to the Framework.

**120.13 A3:** In the first bullet, it is not clear what is meant by “appropriate challenge” by consultees. If the intent is to indicate that those consulted may challenge the professional accountant’s conclusions, we recommend that this is clarified.

**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?**

No, we are not aware of such considerations.

**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?**

While the language is not objectionable in principle we do not fully understand the relevance of the proposed wording in (b) “*The application of interpersonal, communication and organizational skills*” to a Code of Ethics: further while we appreciate that the text refers to “application” of these important skills we could see that some



readers might infer that the lack of such skills impairs their ability to act as professional accountants. We do not see that these skills are any more important in the digital age (which of course is not referenced in the text anyway). The Board might wish to have another look at this language.

**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 approach.

**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?”**

The proposed definition implies that any information that is not in the public domain is confidential. We do not believe that this is necessarily the case and that there should be some scalability in the definition. Further local laws or regulation may include local definitions and clients and organisations will often have their own policies and related procedures on what is confidential, often differentiating “highly confidential” information.

Further we therefore recommend that 114.1 A1 also contains an element of scalability for example by referring to “secure as appropriate”.

**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)?**

Yes, we agree that this should not be included as this is essentially a matter for local law.

**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).**

We agree that an audit firm needs to assess whether it performs a management responsibility if it uses technology in performing a professional activity for its audit client. Hence, the references in the following proposed sections - 400.16 A1 to 400.15 and .16 - are reasonable.

We recommend that it would be helpful to clarify under what circumstances a control embedded in a technology developed or hosted by an audit firm would constitute a management responsibility. Technology solutions often include controls like the monitoring of deadlines set by the user or a block of a process if a specific requirement is met. In our view, controls do not create a threat to independence resulting in a management responsibility provided that:

- the control is routine and mechanical in nature,
- the audit client decides on whether the control is fit for the client’s purpose, and
- the audit client decides on the action to be taken if such control takes effect.

In order to avoid any misunderstanding, we believe that such a control embedded in a technology does not constitute a management responsibility. The Code could, however, be read today such that such a control might be a management responsibility due to the fact that the examples in 400.15 A3 include ‘Take responsibility... for designing, implementing, monitoring or maintaining internal control’. However, we acknowledge that such a service might still create a self-review threat if the control relates to accounting records or information relevant for financial statement purposes. We recommend that this be clarified.



In relation to 601.5 A2, we find the second sentence a difficult read. We suggest that consideration should be given to the substance of the service and what it does and “whether the technology delivers an outcome or deliverable that is in substance the same as the exercise of the firm’s expertise or judgement”.

We agree with the proposed 601.5 A3.

We concur with the amendments relating to business relationships. We suggest that the proposed new bullet in 520.3 A2 is amended as follows:

‘Arrangements under which the firm or a network firm develops jointly with the client, products or solutions which one or both parties sell or licence to third parties for the benefit of both.’

520.3 A2 gives ‘examples of a close business relationship arising from a commercial relationship or common financial interest’. This indicates that joint technology developments always result in a close business relationship. We believe that this is not appropriate under all circumstances. For example, there should not be a close business relationship if the contribution of the audit client is limited, it is not transparent to the customers of the “codeveloper”, and the audit client is not involved in the distribution of the technology nor does it benefit commercially from it.

We agree with the proposed revisions to remind Professional Accountants who provide, sell, resell or licence technology to an audit client to apply the NAS provisions.

**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<sup>19</sup> 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?**

While we support the revision of sub-section 606 we suggest revising the wording of the first bullet of proposed 606.3 A1. We agree that a service which only comprises the hosting of an audit client's data is an impermissible management responsibility. However, the first bullet of 606.3 A1 refers to 'services in relation to' hosting. This wording is not clear to us and is too broad.

We recommend that the Code should clearly state that "Hosting of an audit client's data" is an example of a management responsibility. Proposed 606.3 A2 would correctly make it clear that the collection, receipt and retention of data to enable the provision of a permissible service, including as part of an audit, is not a prohibited management responsibility.

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

Yes. However, we recommend

- That proposed 900.13 A4 be revised to the same extent as 606.3 A1,
- That the last bullet of 920.3 A2 be revised like 520.3 A2.

**General comment**

We note that the effective date has not been proposed. In line with our forthcoming survey comments on the Board's Strategy and Work Plan we hope that the Board will limit its considerations of any changes to these proposals to responses to this exposure draft. We hope that any additional considerations emanating from the research being conducted by the Technology Working Group can, ideally, be limited to guidance rather than further changes to the Code or IIS.