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Our ref SRA/288

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Dear Mr Siong

Exposure Draft: Proposed Technology-related Revisions to the Code

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG global organization.

The appendix to this letter provides our responses to the specific questions posed in the Exposure Draft. While we support many of the provisions included in the Exposure Draft, we do not support the proposed addition of paragraph 520.7 A1, which includes a reference to the non-assurance service requirements in section 600. Including this paragraph may give the impression that the selling or reselling of technology alone creates a business relationship that needs to be evaluated under the requirements of Section 520 and we do not believe this to be the case.

We also take exception with the inclusion of the section on complex circumstances as we do not believe the material is very clear or helpful for practical application. We would instead suggest the Board incorporate the notion of complexity as a factor to consider when evaluating threats to compliance with the fundamental principles.

Please contact Karen Bjune at kbjune@kpmg.com if you wish to discuss any of the issues raised in this letter.



Yours sincerely

A handwritten signature in black ink, appearing to read 'Edward G. Cannizzaro', written over a thin vertical line.

Edward G. Cannizzaro
Global Head of Quality,
Risk and Regulatory

Appendix A: Responses to Specific Questions

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?**

We agree with the proposed considerations but believe that the linkage to compliance with the fundamental principles and how threats might be created by the use of technology should be more fully articulated in the opening sentences of 200.6 A2 and 300.6 A2.

As a minor editing point, we suggest adding “sufficient” before “information” in the first bullet point under 200.6 A2 and 300.6 A2.

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 majority of these proposed revisions. In relation to paragraph 220.7 A3, we suggest rewording the paragraph to be more specific and adding examples which will aid in understanding and accurate translation.

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 support the addition of the proposed application material on *Complex Circumstances* as we do not believe the material is sufficiently clear or helpful for practical application. While it could be concluded that the addition of this application material is not particularly harmful, we do not believe that this should be a basis or threshold for inclusion.

As the concept of complexity is not new to professional accountants, we would instead suggest the Board work to incorporate the notion of complexity as a factor to consider when evaluating threats to compliance with the fundamental principles. As we commented in the 2020 technology survey, we believe that the impact on the evaluation of a threat should not be limited to circumstances or situations that are complex, but rather on a continuum of difficulty. For example, even though a situation may be complicated instead of complex, that complicated situation likely would result in a threat that is more substantial than a simple situation if all other facts and circumstances were similar.

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 anticipate that effectively translating the proposed application material on complex circumstances, as it is currently presented, and attempting to clearly articulate the difference between complicated and complex, as an example, would pose challenges. This was specific feedback from jurisdictions in both Europe and Asia Pacific.

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?***

We would recommend removing the proposed addition of bullet (b) to paragraph 113.1 A1, given 1) the generic wording, which we do not view as adding value to the Code, and 2) the lack of an apparent linkage or relevance to the technology project.

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?***

We agree with the Board's decision to not include an explicit reference to the IESs in the Code.

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?”***

We support these proposed revisions and the proposed glossary definition.

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)?***

We agree with the decision to exclude “privacy” 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. 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).***

(a) & (b) We agree with these proposed revisions.

- (c) We do not agree that the addition of the NAS reference to section 600 requirements is necessary or appropriate in section 520. Proposed paragraph 520.7 A1 is redundant with 600.6 and including the reference in section 520 may give the impression that the selling or reselling of technology alone creates a business relationship that needs to be evaluated under the requirements of section 520 and we do not believe this to be the case. In addition, given the independence considerations for a business relationship are not the same as those for the provision of a non-assurance service, the inter-relationship between the two created by the inclusion of the NAS reference may confuse the user of the Code.

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) 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?**

(a) & (c) We agree with these proposals.

(b) We agree with these proposals. Given the potential complexity of the proposed requirements, we suggest the IESBA monitor implementation efforts and consider developing implementation guidance with examples of permissible services to aid in consistent interpretation.

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

See our comment under question 9 (c) above. We do not agree with the conforming change to 920.6 A1, and the reference to Section 950.

As a minor editing point for paragraph 900.13 A5, we would suggest adding “provided by an assurance client” after “the collection, receipt and retention of data” to be more specific.