

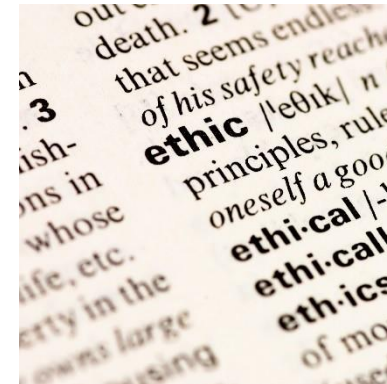
# Proposed Technology-related Revisions to the Code

April 5, 2022

**Rich Huesken, IESBA Member and Task Force Chair**

**Greg Driscoll, IESBA Technical Advisor and Task Force  
Member**

- 1) Background
- 2) Overview of revisions
- 3) Deep dive into specific revisions
- 4) Questions and Answers



# The Digital Age

- Profession and others recognizing pressing need to understand and address transformative effects of technology
  - Strategic imperatives?
  - Impact on business models?
  - Threats and opportunities?
- Ethics implications for the profession?
  - AI, Blockchain, Cybersecurity, Big Data, IoT, Cloud-based services, ...





*“...generally, the Code currently provides high level, principles-based guidance for most technology-related ethics issues that professional accountants and firms might encounter...”*

# Technology Revisions

Informed by:

- [Phase 1 Report](#)
- Role and Mindset project
- NAS project
- Two global [surveys](#) on “complexity” and “auditor independence”
- Stakeholder outreach to date

Phase 1 report available [here](#)

# IESBA Technology Workstreams

## 1. Propose technology-related revisions to the Code (Technology Project)

- ❖ Goal is to ensure that Code remains relevant and fit for purpose
- ❖ Builds on strong overarching requirements in the extant Code
- ❖ Will retain extant Code's principles-based approach
- ❖ Approval of Exposure Draft (ED) in December 2021

- Follow the Technology Project [here](#)
- Access the [Technology Focus Page](#) for various thought leadership and other resources

## 2. Undertake Fact Finding

- ❖ Monitor evolving technologies; consider any new ethics and independence issues
- ❖ Involves desktop research and stakeholder engagement
- ❖ Informs development of Technology ED/ finalization of Technology revisions, and to recommend other actions that might be taken by IESBA and others

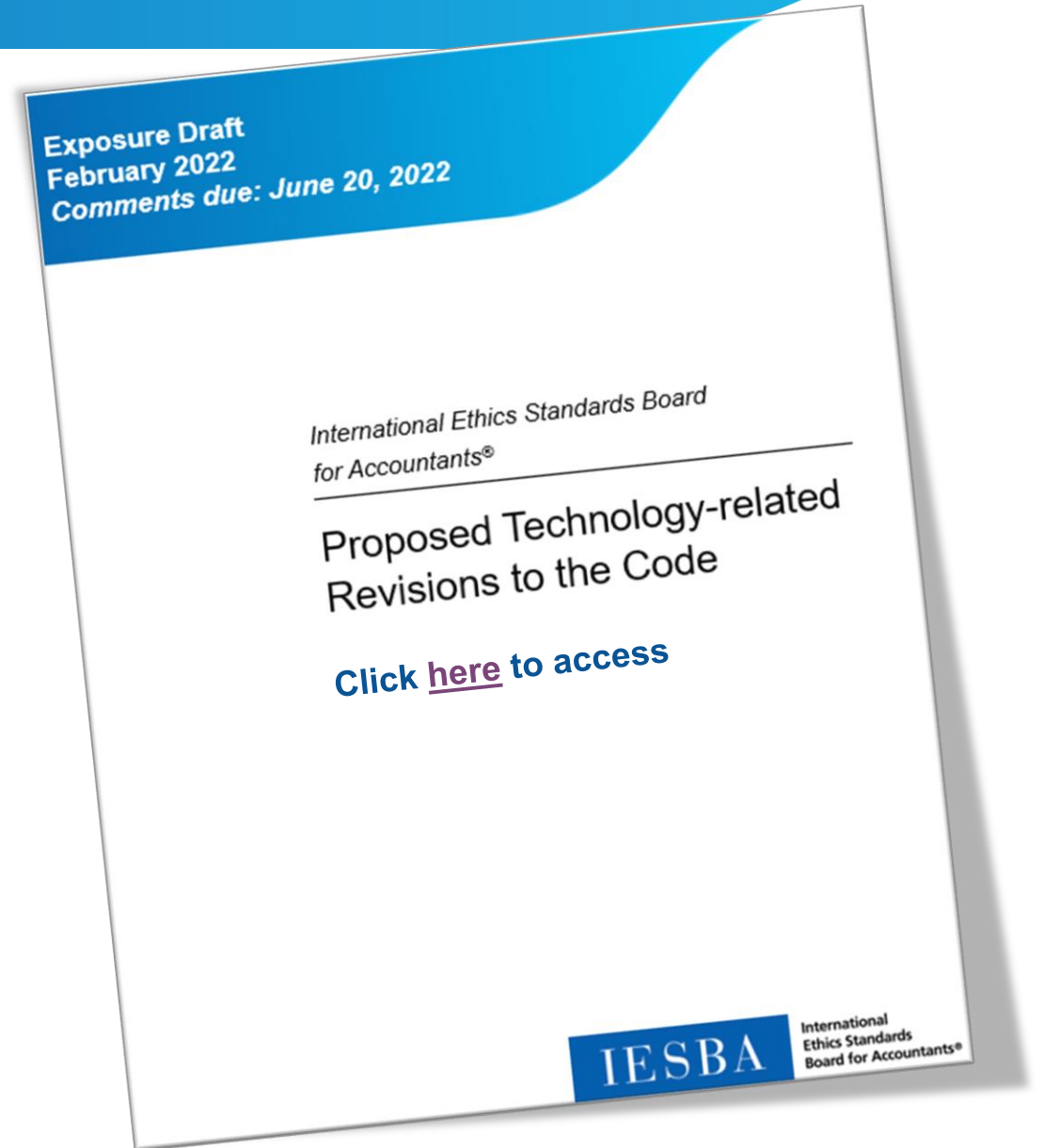
## 3. Develop technology-related guidance and thought leadership

- ❖ Responsive to stakeholder calls for guidance
- ❖ Collaboration with others, including IFAC and national standards setters (e.g., ICAS, CPA Canada, APESB, JICPA)

# Enhancing the Relevance of the Code

- Guides the ethical mindset and behavior of **PAs in business** and in **public practice**
- Deals with changes brought by **technology in business** and **professional services** (i.e., work processes and the content of the services provided)
- Stakeholders are encouraged to submit comments

**Comment period deadline:  
June 20, 2022**





# Overview of Proposed Technology Enhancements

Draws attention to the **competence, confidentiality, & leadership** imperatives of the digital age

Considers the ethical threats from **reliance on the output of technology & complex circumstances**

Addresses the ethical dimension of **reliance on, or use of, the output of technology**

Strengthens **auditor independence** for technology-related services & business relationships

Applies to assurance on **non-financial information** (i.e. ESG disclosures)



# Ethics for PAs in Business and Public Practice





# Role & Mindset: Technology Enhancements

Already Effective

- Professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and **technology-related developments**
- Exercise of professional or business judgment can be compromised by undue influence of, or undue reliance on, individuals, organizations, **technology** or other factors
- **Bias** affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles
  - e.g., **Automation bias**, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose

# Professional Skills Needed

## 113.1 A1

Serving clients and employing organizations with professional competence requires:

- (a) The exercise of sound judgment in applying professional knowledge and skills; and
- (b) The application of interpersonal, communication and organizational skills when undertaking professional activities.

## Rationale

- Emphasizes the types of professional skills needed by PAs in the digital age
- Builds on Role & Mindset technology enhancements
- Based on specific learning outcomes of international education standards:
  - Form the basis for CPD and incoming qualification programs for PAs
  - Were recently revised to reflect skills needed by PAs in the digital age

# Sufficiency of Information Provided

## R113.3

Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities and provide them with sufficient information to understand the implications of those limitations.

## Rationale

- Trust arises from being transparent to stakeholders
- Addresses implicit tension between being “transparent” and maintaining “confidentiality”
- Objective is so stakeholders have the information necessary to understand the implications of limitations inherent in a PA's services or activities



# Confidentiality and Data Governance

Glossary: Confidential information

Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not in the public domain.

114.1 A~~1~~2

Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the professional accountant taking appropriate action to secure such information in the course of its collection, use, transfer, storage, dissemination and lawful destruction.

## Rationale

- Recognizes the increase in data across all mediums, and ease of access to such data
- Emphasizes the importance of maintaining confidentiality throughout the data governance cycle

# Complex Circumstances (1)

## Complex Circumstances

### 120.13 A1

The circumstances in which professional accountants carry out professional activities vary considerably. Some professional activities might involve complex circumstances that increase the challenges when identifying, evaluating and addressing threats to compliance with the fundamental principles.



# Complex Circumstances (2)

## 120.13 A2

Complex circumstances arise where the relevant facts and circumstances involve:

(a) Elements that are uncertain; and

(b) Multiple variables and assumptions,

which are interconnected or interdependent. Such facts and circumstances might also be rapidly changing.

## 120.13 A3

Managing the evolving interaction of such facts and circumstances as they develop assists the professional accountant to mitigate the challenges arising from complex circumstances. This might include:

- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.
- Using technology to analyze relevant data to better inform the accountant's judgment.
- Making the firm or employing organization and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances.
- Monitoring any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the accountant has made.



# Ethical Leadership

120.143 A3

Professional accountants are expected to:

(a) eEncourage and promote an ethics-based culture in their organization, taking into account their position and seniority; and:

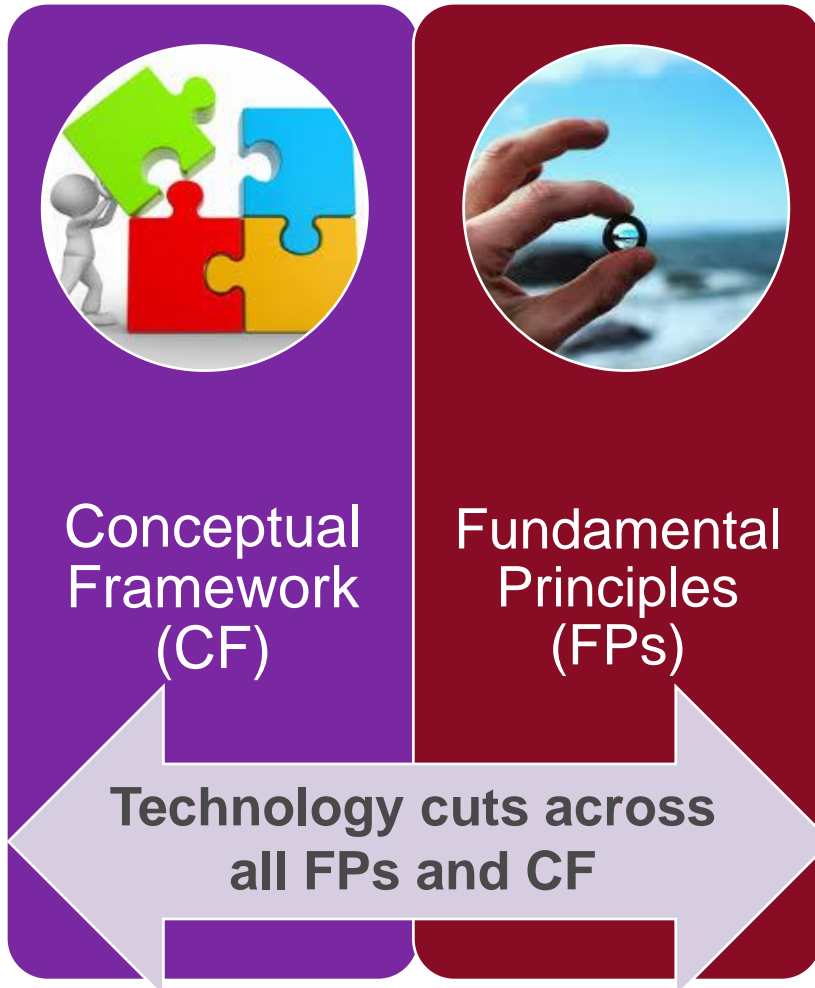
(b) Demonstrate ethical behavior in dealings with business organizations and individuals with which they or their firm or employing organization has a professional or business relationship.

## Rationale

- Trust arises from ethical behavior
- Ethical culture within an organization enhances the effective application of ethical principles
- Prompts leaders and PAs to demonstrate ethical behavior in professional or business relationships

# Technology and the Conceptual Framework

Similar guidance for PAPPs



## 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.
- 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.

# Relying on the Output of Technology

Similar guidance for  
PAPPs

## 220.7 A2

Factors to consider in determining whether reliance on the output of technology is reasonable include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output from the technology.
- The professional accountant's ability to understand the output from the technology for the context in which it is to be used.
- Whether the technology is established and effective for the purpose intended.
- Whether new technology has been appropriately tested and evaluated for the purpose intended.
- The reputation of the developer of the technology if acquired from or developed by an external vendor.
- The employing organization's oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology.
- The appropriateness of the inputs to the technology, including data and any related decisions.





# International Independence Standards



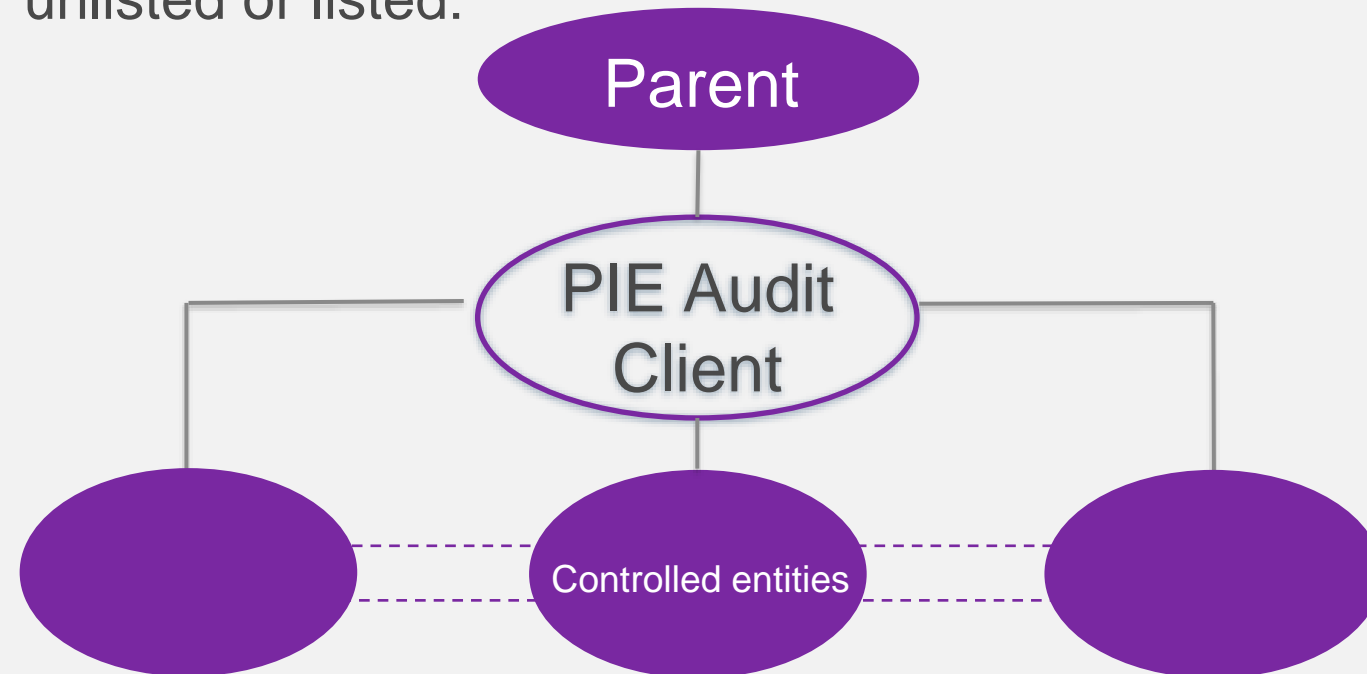
# Those Charged with Governance (TCWG)

Effective December  
2022

## Communication with TCWG – PIE Audit Client

3-MINUTE VIDEO  
AVAILABLE

- Facilitate and promote more robust engagement between auditors and TCWG regarding NAS and fees for PIEs
- Requires concurrence from TCWG before providing NAS to the PIE, the PIE's parent and subsidiaries, whether unlisted or listed:



# Communication with TCWG – PIE Audit Clients (2)

Effective December  
2022

## Examples of information to communicate with TCWG – PIE Audit Client

- ☐ The nature and scope of the proposed NAS
- ☐ The basis and amount of the proposed fee
- ☐ Whether the firm has **identified any threats** to independence that might be created by the proposed NAS, the **basis for the firm's assessment** that the threats are at an acceptable level, **or the actions** the firm might take to eliminate or reduce any threats to an acceptable level
- ☐ Whether the combined effect of providing multiple NAS creates threats or changes the level of previously identified threats



# Strengthened Guardrails on Independence (1)

Effective December  
2022

- **NAS that might create a self-review threat**
- **Prohibited for PIE audit clients**

**Before** providing a non-assurance service to an audit client, a firm or a network firm shall determine whether the provision of that service **might create a self-review threat** by evaluating whether there is a risk that:

- The **results of the service** will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion; and
- In the course of the audit of those financial statements on which the firm will express an opinion, the audit team will **evaluate or rely on any judgments made or activities performed** by the firm or network firm when providing the service.

# Strengthened Guardrails on Independence (2)

Effective December  
2022

## Technology- related NAS

Under revised NAS provisions:

- Firms to consider the **manner** in which a NAS is to be provided in identifying and evaluating threats to independence
- New guidance explains how to determine “**routine or mechanical**” accounting and bookkeeping services
- Prohibition on services that might create a **self-review threat** (SRT) for PIE audit clients
- Prohibition on services involving **designing or implementing IT systems** for PIE audit clients that:
  - (1) Form part of the internal control over financial reporting; or
  - (2) Generate information for the client’s accounting records or financial statements

# IT Systems Services

## 606.2 A1

IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.
- Implementing IT systems, including installation, configuration, interfacing, or customization.
- Operating, maintaining, monitoring, or updating IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data on behalf of the audit client.

## **Rationale**

- Clarifies the range of IT systems services where the Code's International Independence Standards (IIS) are applicable
- Builds on revised NAS provisions

# Services in relation to Hosting

## 606.3 A1

Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Provides services in relation to the hosting (directly or indirectly) of an audit client's data.
- Operates an audit client's network security, business continuity or disaster recovery function.

## 606.3 A2

The collection, receipt and retention of data provided by an audit client to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

## **Rationale**

- Prohibits services related to hosting for all audit clients due to assumption of management responsibility
- Distinguishes the receipt and retention of data provided by an audit client in the course of providing a permissible service



# Examples that Might Create a Self-review Threat

## 606.4 A3

Examples of IT systems services that might create a self-review threat when they form part of or affect an audit client's accounting records or system of internal control over financial reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems.
- Supporting an audit client's IT systems, including network and software applications.
- Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm.

Prohibited for PIE audit clients

# Dependency of NAS, including frequency

## 600.9 A2

Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- .....

## Rationale

- Provision of frequent or continuous monitoring or analysis services are becoming more prevalent in the digital age
- Could be regarded as forming part of the audit client's internal controls over financial reporting

# Examples of Close Business Relationships

520.3 A2

Examples of a close business relationship:

...

- Distribution or marketing arrangements under which the firm or a network firm sells, resells, distributes or markets the client's products or services, or the client sells, resells distributes or markets the firm or a network firm's products or services.
- Arrangements under which the firm or a network firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

## Rationale

- Clarifies what type of technology-related business relationships are “close”

# Providing, Selling, Reselling or Licensing Technology

## 520.7 A1

If a firm or a network firm provides, sells, resells or licenses technology to an audit client, the requirements and application material in Section 600 apply.

## 600.6

The requirements and application material in this section also apply in those circumstances where:

- (a) A firm or a network firm uses technology to provide a non-assurance service to an audit client; or
- (b) A firm or a network firm provides, sells, resells or licenses technology to an audit client.

## **Rationale**

- Explicit clarification that NAS provisions are relevant when a firm provides, sells, resells or licenses technology to a client that performs a NAS



# Routine or Mechanical (non-PIEs)

## 601.5 A1

Accounting and bookkeeping services that are routine or mechanical:

- (a) Involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and
- (b) Require little or no professional judgment.

## 601.5 A2

Accounting and bookkeeping services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include how the technology functions and whether the technology is based on expertise or judgments of the firm or a network firm.

## 601.5 A3

Examples of services, whether manual or automated, that might be regarded as routine or mechanical include: .....

## **Rationale**

- Builds on NAS revisions
- Assists readers of the Code understand that automated NAS are not necessarily routine or mechanical

# Technology and Management Responsibility

## 400.14 A1

When technology is used in performing a professional activity for an audit client, the requirements in paragraphs R400.13 and R400.14 apply regardless of the nature or extent of such use.

## **Rationale**

- Acknowledges that use of technology (e.g. intelligent agents) could, in substance, assume management responsibility
- Reminder that the prohibition on assuming management responsibility applies, regardless of the extent to which technology is used

# Non-financial Reporting

900.1 This Part applies to assurance engagements other than audit engagements and review engagements. Examples of such engagements include: ...

- Assurance on an entity's non-financial information, for example, environmental, social and governance disclosures, including greenhouse gas statements.

- ...

## Rationale

- 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 (ESG) disclosures

# Questions/ Comments







## Appendix – Overview of NAS Prohibitions



# For ref – Overview of Specific NAS Prohibitions

Effective December  
2022

## Specific NAS prohibitions

2-MINUTE VIDEO  
AVAILABLE

### All Audit Clients

- Certain tax services *Subsection 604*
- When the effectiveness of the service depends on a particular accounting treatment or presentation in the financial statements:
  - Tax advisory and tax planning services *R604.13*
  - Corporate finance services *R610.6*
- Recruiting services *R609.5-R609.6*
- Promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the audit client or providing advice on investment in such shares, debt or other financial instruments *R610.5*

### PIE Audit Clients

- Accounting and bookkeeping services\* *R601.6*
- Valuation services\* *R603.5*
- Acting as an expert witness *R607.9*
- Legal advice\* *R608.9*
- Acting in an advocacy role *R608.11*

Note:  
Preparing statutory financial statements and acting as an expert witness in relation to a class action are not prohibited in certain specific circumstances and provided specific conditions have been met *R601.7, 607.7 A3(a)*

\* *Prohibited when a self-review threat might be created*

# For ref – Prohibited Tax Services

Effective December  
2022

## Prohibited

- Tax service or transaction relating to marketing, planning, or opining in favor of a tax treatment that was initially recommended, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance (for all audit clients) *R604.4*
- Tax advisory and tax planning services when effectiveness of advice is dependent on a particular accounting treatment or presentation in the financial statements... (for all audit clients) *R604.13*
- Tax calculation for the purpose of preparing accounting entities (for PIEs only) *R604.10*
- Acting as an advocate before a tribunal or court in the resolution of a tax matter (for PIEs only) *R604.26*

## Prohibited for PIEs when a SRT might be created

- Tax advisory and tax planning services *R604.15*
- Tax involving valuations *R604.19*
- Assistance in resolution of tax disputes *R604.24*

**Not Prohibited:** Tax return preparation *604.5 A1 to 604.6 A1*



Note: In limited circumstances—the provision of certain types of tax services are not prohibited—only if specific conditions have been met. *R604.4, 604.12 A2, 604.17 A3*

# For ref – Prohibited NAS due to Advocacy

Effective December  
2022

## Prohibited for All Audit Clients

- Marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail. *R604.4*
- Acting as an advocate before a tribunal or court to resolve a tax matter, dispute or litigation *R604.26 and R608.11*
- Acting as an expert witness unless appointed by a tribunal or court. (*R607.9*) There are specific provisions that govern acting as an expert witness in a class action.
- Serving as General Counsel *R608.9*
- Promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the audit client or providing advice on investment in such shares, debt or other financial instruments *R610.5*





*[www.ethicsboard.org](http://www.ethicsboard.org)*



[@Ethics Board](https://twitter.com/Ethics_Board)



[@IESBA](https://www.linkedin.com/company/iesba)

 **YouTube** [@IESBA](https://www.youtube.com/iesba)