AGENDA PAPER

Item Number: 6

Date of Meeting: 10 March 2022

Subject: Project update on Technology

X	Action Required		For Discussion	X	For Noting		For Information

Purpose

To provide the Board with an update on APESB's Technology project and related developments.

Background

In March 2020, the Board approved a project plan to consider the applicability of the current ethical and professional standards to Artificial Intelligence (AI) and Digital Technologies. The project aims to understand how professional accountants use AI and digital technologies and determine whether additional professional and ethical obligations or guidance are required in APESB pronouncements.

The International Ethics Standards Board for Accountants (IESBA) also has a Technology project and its Working Group issued a phase 1 report in late 2019. Subsequently, it approved a project proposal to develop enhancements to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code).

The IESBA established a Technology Working Group (TWG) in March 2021 to focus on fact-finding and the development of technology-related non-authoritative material (NAM).

At the June 2021 Board Meeting, the Board approved the initial focus of APESB's Technology project to be on Forensic Accounting and Valuation Services.

At the September 2021 Board Meeting, Technical Staff updated the Board on joint APESB-IESBA NAM and potential Technology revisions to the IESBA Code (Agenda Item 9).

Technical Staff provided a further update at the November 2021 Board Meeting, including progression of APESB-IESBA NAM, the status of IESBA's Technology project and proposals for a paper on forensic accounting and valuation services (Agenda Item 10).

Technology Project progress update

Since the November 2021 Board Meeting, Technical Staff have focused on resource development and data gathering summarised below.

Joint APESB-IESBA Non-Authoritative Material

At the November 2021 Board meeting, APESB Technical Staff sought the Board's feedback and comments on the working draft of the joint APESB-IESBA NAM on Auditor Independence and Technology, including four case studies where an audit client asks a firm to:

- implement an entire software suite;

- implement software developed by the firm;

- provide a non-assurance service that might appear to be "routine or mechanical"; and

- provide a non-assurance service due to insights gained from using technology in an audit engagement.

As requested by the Board, Technical Staff obtained feedback on the draft NAM from the professional bodies and other standard setters. Technical Staff provided the updated draft NAM to IESBA on 17 December 2021, which included the following substantive changes:

- revised introduction;

- updated case studies to highlight the assumption of management responsibility as a key overarching feature and to reflect IESBA's final standard on Non-Assurance Services (NAS);

- reformatted case studies 1 and 2 into the descriptive format per other case studies;

- incorporated references to over-reliance on technology in case study 2;

- removing the referral of work to a consultant in case study 4; and

- inclusion of confidentiality considerations in case study 4.

APESB Technical Staff are waiting to hear IESBA's views on the revised draft. Technical Staff were also contacted by a couple of large firms wishing to provide feedback, and we will consult further with these firms once the revised draft is received from the IESBA.

This NAM is planned to be released in the first half of 2022.

IESBA Proposed Technology-related Revisions to the Code

At the November-December 2021 IESBA Board meeting, an Exposure Draft on *Proposed Technology-related Revisions to the Code* was approved and released on 18 February 2022.

The proposals include further technology-related considerations in *Part 1: Complying with the Code, Fundamental Principles and Conceptual Framework* of the IESBA Code in relation to professional competence and due care, confidentiality throughout the data governance cycle, the proposed definition of 'Confidential Information', and the impact of complex circumstances on the conceptual framework.

Proposed revisions to *Parts 2 and 3 – Professional Accountants in Business and Professional Accountants in Public Practice* of the IESBA code include application material to assist in identifying threats when using the output from technology and guidance when relying on, or using, the output of technology.

The proposals for *Parts 4A Independence for Audit and Review Engagements* include revisions:

- Highlighting the assumption of management responsibility prohibition and NAS provisions apply when technology is used and the relevance of client dependency on NAS.

- Refining technology-related arrangements that create close business relationships.

- Highlighting that accounting and bookkeeping services can be manual or automated and 'routine or mechanical' requires consideration of how the technology functions and whether it is based on the firm's expertise or judgements.

- Providing a description of IT systems services that is broad in scope and goes beyond design and implementation.

- Withdrawing the presumption that providing certain IT system services (for example, off-the-shelf software) does not usually create threats.

Proposed amendments to *Part 4B Independence for Assurance Engagements other than Audit and Review Engagements* of the IESBA Code include highlighting this Part applies to environmental, social and governance (ESG) disclosures and to preserve alignment between Parts 4A and 4B.

The main changes proposed to the IESBA Code are summarised in Agenda Item 6(a).

Technical Staff propose that the APESB makes a submission to the IESBA on the proposed revisions and comments are due by 20 June 2022.

Technical Staff also propose holding Roundtable discussions with Australian stakeholders in May 2022 to discuss the proposals and obtain stakeholder feedback to inform APESB's submission.

IESBA's Technology Working Group and Technology Advisory Group

At the November-December 2021 IESBA Board meeting, the Board received an update from its TWG on fact-finding activities and technology-related resource development, including the joint APESB-IESBA NAM, and the TWG's efforts to establish an external Technology Advisory Group (TAG). The TAG is anticipated to consist of technology experts to function as a sounding board, support and provide input to the TWG and consult with jurisdictional stakeholders as needed.

At the October 2021 IESBA National Standard Setters (NSS) meeting, the IESBA requested nominations from NSS for TAG members and NSS staff to support and/or act as co-chair for the TAG. As approved by the Board at the November 2021 meeting, Jon Reid, APESB Senior Technical Manager, was nominated to support the operation of the TAG. Mr Reid attended an initial meeting with the Chair of the IESBA TWG and IESBA Technical Staff on 3 February 2022 for this purpose.

The TWG will provide a further update at the March 2022 IESBA meeting. APESB Technical Staff will continue to monitor developments and update the Board accordingly.

Paper on Forensic Accounting and Valuation Services

A key outcome of APESB's Technology project will be determining the impact of AI and digital technologies on APES 225 *Valuation Services* (APES 225) and APES 215 *Forensic Accounting Services* (APES 215), which the IESBA Code Technology revisions will also influence.

Technical Staff will prepare a preliminary paper on the impact of technologies on valuation and forensic accounting services, in conjunction with reviewing the IESBA proposed technology-related revisions, for the June 2022 Board meeting, followed by a final paper for the November 2022 Board meeting.

Way forward

The way forward for this project is for APESB Technical Staff to:

- continue to collaborate with the IESBA TWG on the development and publication of NAM during the first half of 2022;

- provide operational support to the IESBA TAG as required;

- conduct Roundtable discussions on the IESBA Proposed Technology-related revisions during May 2022;

- respond to the IESBA Technology exposure draft by 20 June 2022; and

- perform research on the impact of technologies on APES 225 and APES 215 and prepare a preliminary paper for the June 2022 Board meeting and a final paper for the November 2022 Board meeting.

Staff Recommendation

The Board note the progress on APESB's Technology project.

Materials Presented

Agenda Item 6(a)	Summary of proposed Technology-related revisions to the IESBA Code

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Date	24 February 2022