

IESBA Proposed Technology-related Revisions to the Code

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Agenda

- Background to IESBA's Technology Proposals
- Key proposed revisions in the Technology ED:
 - Fundamental Principles – PC & DC and Confidentiality
 - Conceptual Framework – Complex Circumstances & Ethical Leadership
 - Reliance on Technology
 - Independence Standards – Technology related services and business relationships
 - Part 4B and ESG disclosures
- Focus Questions & Feedback Session

Background to IESBA's Technology Proposals



Rationale and Basis for Technology Revisions

Need to address the transformative effects of Technology and the Digital Age.

Proposed Technology-related Revisions to the IESBA Code informed by:

- IESBA's Technology Working Group's [Phase 1 Report](#).
- [Role and Mindset](#) and [Non-Assurance Services](#) projects/Code revisions.
- IESBA's two global [Technology Surveys](#) on:
 - Technology and complexity in the professional environment.
 - The impact of technology on auditor independence.
- Stakeholder outreach.

Role and Mindset – Technology Related Changes

[Role and Mindset Revisions](#) effective 1 January 2022 included:

- Maintaining professional competence includes continuing awareness and understanding of technology-related developments (113.1 A2).
- Professional or business judgement can be compromised by undue influence of, or undue reliance on, individuals, organisations, technology or other factors (110.1 A1, R112.1, 120.16 A2 & R220.4).
- Conscious or unconscious bias affects the exercise of professional judgement when applying the conceptual framework (120.12 A1) including:
 - ‘automation bias’ – favouring outputs from automated systems even with contradictory human reasoning or information (120.12 A2).

Non-Assurance Services – Technology Related Changes

IESBA revisions to the [Non-Assurance Service Provisions of the Code](#), effective 15 December 2022:

- Explain ‘routine or mechanical’ accounting/bookkeeping services involve information, data or material on which the client has made necessary judgements or decisions (601.5 A1).
- Prohibit IT system services to PIE audit clients that might create a self-review threat (R606.6) including designing or implementing IT systems that (606.6 A1):
 - Form part of internal controls over financial reporting; or
 - Generate information for accounting records or financial statements.

IESBA's Proposed Technology-related Revisions

Exposure Draft approved at December 2021 Board Meeting:

- To ensure the Code remains relevant and fit for purpose and guides accountants mindset and behaviour.
- Builds on the extant Code's strong overarching requirements and retains principles-based approach.
- Submissions due **20 June 2022**.

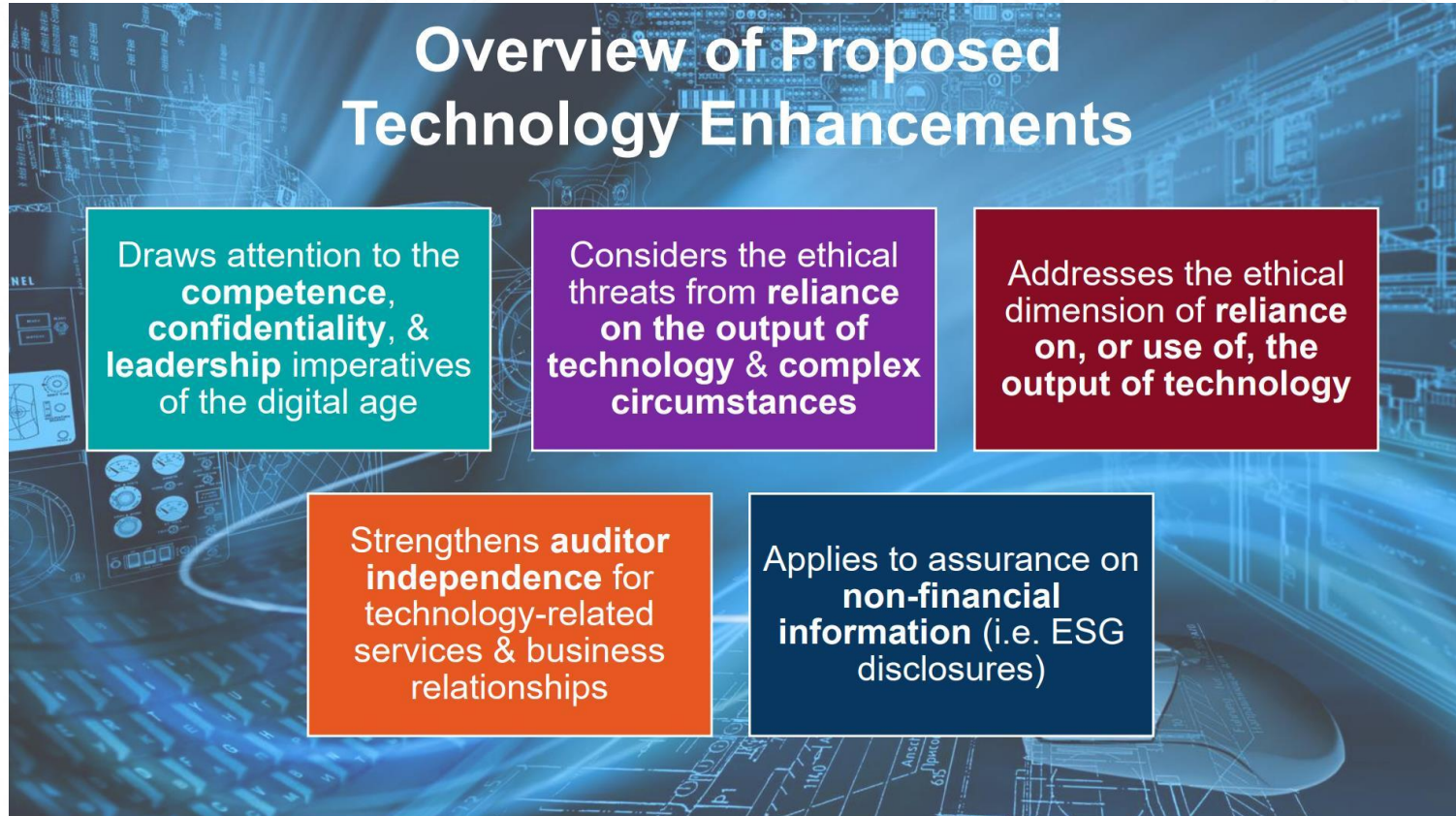
IESBA's Technology Working Group is undertaking other fact finding and guidance development.



Key Proposed Revisions in the Technology ED



Overview of Proposals – IESBA Extract



Fundamental Principles

Professional Competence and Due Care

- Professional competence also requires the application of interpersonal, communication and organisational skills (113.1 A1).
- When making users aware of limitations in services/activities – provide sufficient information to understand the implications of those limitations (R113.3).

Confidentiality

- Maintaining confidentiality of information – secure over the data governance lifecycle collection, use, transfer, storage, dissemination and lawful destruction (new 114.1 A1).
- Proposed broad definition of ‘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.

Conceptual Framework

Complex Circumstances (new 120.13 A1-A3)

- Increase challenges in applying the conceptual framework.
- Involve elements that are uncertain, multiple variables and assumptions, which are interconnected or interdependent – might also be rapidly changing.
- Managing evolving interaction helps to mitigate these challenges including:
 - Consulting with others to ensure appropriate challenge/evaluation.
 - Using technology to analyse relevant data.
 - Making stakeholders aware of inherent uncertainties/difficulties.
 - Monitoring any developments or changes.

Ethical Leadership (amendment to 120.14 A3 under 'Organisational Culture')

- Accountants to demonstrate ethical behaviour in professional/business relationships

Relying on Technology Outputs – Applying the CF

Considerations relevant when identifying threats to the fundamental principles when relying on technology outputs (MIB 200.6 A2 & MIPP 300.6 A2) include whether:

- Information on how technology functions is available.
- Technology appropriate for the purpose.
- Accountant has professional competence to understand, use and explain outputs.
- Technology incorporates accountant's expertise or judgement.
- Technology designed or developed by accountant – self-interest/self-review threat.

Relying on Technology Outputs

Subsections on 'Relying on the Work of Others' expanded to include technology outputs:

- Section 220 *Preparation and Presentation of Information*
 - Member in Business intends to rely on technology output (whether developed internally or by third party) must exercise professional judgement to determine steps to meet responsibilities in R220.4 (R220.7).
- Section 320 *Professional Appointments*
 - Member in Public Practice intends to use the work of an expert or technology outputs must determine whether it is appropriate for the intended purpose (R320.10).

Is Reliance on Technology Reasonable or Appropriate

Factors to consider on whether reliance on technology outputs is reasonable (MIB 220.7 A2) or appropriate (MIPP 320.10 A2):

- Nature of activity performed by technology.
- Expected use or reliance on outputs.
- Accountant's ability to understand outputs.
- Whether technology is established and effective.
- Whether new technology has been appropriately tested and evaluated.
- Reputation of technology developer (if acquired or developed externally).
- Oversight of design, development, implementation, operation, maintenance, monitoring or updating.
- Appropriateness of inputs – data and related decisions.

Whether MIB's position/role impacts access to the above information (new 220.7 A3).

Independence Standards

Prohibition on Assuming Management Responsibilities:

- Applies when using technology (new 400.16 A1).

Business Relationships - ‘Providing, Selling, Reselling or Licensing Technology’:

- If the firm does any of these to an audit client then Section 600 applies (520.7 A1).

Section 600 Provision of Non-Assurance Services to an Audit Client

- Applies where technology is used to provide NAS or the firm provides, sells, resells or licenses technology to an audit client (new 600.6).
- Client’s dependency on NAS, including frequency provided, added as a factor relevant in identifying and evaluating threats created by NAS (600.9 A2).

Independence Standards – Business Relationships

Clarifies Technology-related Business Relationships that are close (520.03 A2):

- Firm sells, resells, distributes or markets client's products or services or client sells, resells, distributes or markets the firm's products or services.
- Firm develops products/solutions jointly with the client and one or both parties sell or license to third parties.

Independence Standards – Accounting/Bookkeeping

Accounting and Bookkeeping Services (Subsection 601)

- Can be manual or automated – factors to consider whether automated services are ‘routine or mechanical’ include (new 601.5 A2):
 - how the technology functions; and
 - whether the technology is based on the firm’s expertise or judgement.
- Examples of ‘routine or mechanical’ services can be manual or automated (601.5 A3).

Independence Standards – IT Services

Subsection 606 Information Technology System Services

- Description of IT Systems Services broadened to include (new 606.2 A1):
 - Designing or developing hardware or software.
 - Implementing IT systems (installation, configuration, interfacing or customisation).
 - Operating, maintaining, monitoring, or updating.
 - Collecting or storing data or managing (directly or indirectly) hosting data.
- Requirement on matters to be satisfied of avoid assuming management responsibility amended (R606.3).

Independence Standards – IT Services Cont.

Subsection 606 Information Technology System Services

- Specific examples included of IT system services that result in the assumption of management responsibility (new 606.3 A1):
 - Hosting (directly or indirectly) audit client's data.
 - Operating an audit client's network security, business continuity or disaster recovery.
- Collection, receipt and retention of data to enable a permissible service does not assume management responsibility (new 606.3 A2).
- Presumption that certain services not usually create a threat, including implementing 'off the shelf' accounting software, has been removed (606.4 A2 deleted).

Independence Standards – IT Services Cont.

Subsection 606 Information Technology System Services

- Examples added of IT systems services that might create a self-review threat when part of or affect accounting records or financial internal controls (new 606.4 A3);
 - Designing, developing, implementing, operating, maintaining, monitoring or updating IT systems.
 - Supporting IT systems including network and software applications.
 - Implementing accounting or financial reporting software whether or not developed by the firm.

Above are prohibited for PIE audit clients as might create a self-review threat (R606.6).

Part 4B and ESG Disclosures

Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements

- Section 900 applies to assurance on non-financial information, for example, environmental, social and governance disclosures (900.1).
- Other amendments to maintain alignment to and replicate changes to Part 4A:
 - Activities resulting in assumption of management responsibility (900.13 A4-A5)
 - Prohibition on management responsibility applies (900.14 A1)
 - Technology-related arrangements that are close business relationships(920.3 A2)
 - If provide, sell, resell or license technology Section 950 applies (920.6 A1 & 950.5)
 - NAS provisions apply when technology used and dependency (950.5 & 950.7 A2)
 - Certain IT Systems Services might create a self-review threat (950.10 A1)

Roundtable Discussions Technology



Group 1 – FPs and the CF

Question 1 – Professional Competence & Due Care

- Do you consider that the proposed revisions to paragraph 113.1 A1 adequately capture the skills needed by accountants in the digital age?
- Should this include additional skills?
- Should reference to IFAC's International Education Standards be included in the IESBA Code (e.g. para 113.1 AX considered see para 29 of the EM)?

Standards of professional competence, such as those in the International Education Standards, are implemented through the professional competency requirements of individual jurisdictions.

Group 1 – FP and the CF

Question 2 – Confidentiality

- Do you agree with proposed para 114.1 A1 on securing information throughout the data governance cycle?
- Do you agree with the proposed definition ‘confidential information’?
- Do you agree ‘privacy’ should not be explicitly included in the definition of ‘confidential information’ as it is addressed by national laws and regulations?

Question 3 – Conceptual Framework

- Do you support the proposed material on ‘complex circumstances’ (120.13 A1-A3)?
- Would another mitigating action be to document the multiple variables and assumptions and how they are interconnected or interdependent?
- Is it clear what level of professional competence is required relating to technology?

Group 2 – Reliance on Technology

Question 4 – Do you support the considerations for identifying threats to fundamental principles when relying on technology outputs (200.6 A2 & 300.6 A2)?

- Are there other considerations that are missing?
- Is the meaning of '*whether the technology incorporates expertise or judgements of the accountant/employing organisation/firm*' clear?

Question 5 – Do you agree with the factors to consider whether reliance on technology outputs is reasonable or appropriate (220.7 A2 & 320.10 A2)?

- Are there other factors that should be included?
- What does it mean to 'understand the output'? What level of competence is required – i.e. would the accountant need to understand how the output was derived?

Group 2 – Business Relationships

Question 6 – Do you agree with the changes to examples of close business relationships (520.3 A2):

- To add 'sells' and 'resells'.
- New example where the firm and the client develop jointly products or solutions that one party sells or licenses.
- Should other examples be included (paras 40-42 of the Explanatory Memorandum)?
 - Firms licensing software to audit clients who then use it in delivery of services to their clients.
 - Firms licensing software from an audit client and directly using it in the delivery of services to the Firms' clients.
 - Are the above already covered by the second dot point of 520.3 A2?

Group 3 – IT Systems Services

Question 7 – IT Systems Services

- Do you support the broad description of such services (para 606.2 A1)? Intent is to capture all possible IT systems services that could be provided to an audit client.
- Do you agree that the following services assume management responsibility:
 - Hosting (directly or indirectly) an audit client's data.
 - Operating an audit client's network security, business continuity or disaster recovery.
- Do you agree with the examples of services that might create a self-review threat in paragraph 606.4 A3 (and therefore prohibited for PIE audit clients)?
- Should the exemption for implementing 'off the shelf' accounting software be removed as proposed (606.4 A2 and now included in list of SRTs in 606.4 A3)?

Group 3 – Routine or Mechanical & Part 4B

Question 8 – Are the factors to consider whether automated services are ‘routine or mechanical’ clear (para 601.5 A2):

- how the technology functions.
- whether the technology is based on expertise or judgments of the firm.

Question 9 – Do you agree with, or have any concerns about, the proposed revisions to Part 4B?

Roundtable Feedback Technology



Closing remarks

Nancy Milne OAM
Chairman



Important dates – Engagement Team & Group Audits ED

Consultation process	Date
Online roundtable	9 May 2022
Local stakeholders' submissions to APESB	13 May 2022
Submissions due to the IESBA on the Engagement Team/Group Audits ED	31 May 2022

Important dates – Technology ED

Consultation process	Date
Online roundtable	9 May 2022
Local stakeholders' submissions to APESB	20 May 2022
Submissions due to the IESBA on the Engagement Team/Group Audits ED	20 June 2022

Further Information

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Purpose & Disclaimers

This set of PowerPoint slides has been developed by APESB Technical Staff and the IESBA Technical Staff on the exposure drafts relating to Technology and the definition of Engagement Team and Group Audits for the *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

These slides provide only an *overview* of the proposals in the exposure draft and do not purport to present all the detailed changes. The slides should be read in conjunction with the exposure draft. These slides do not form part of the Code, the text of which is authoritative.

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