

AGENDA PAPER

Item Number: 9
Date of Meeting: 6 September 2021
Subject: Project update on Technology

Action Required For Discussion For Noting For Information

Purpose

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

Background

In August 2019, the Board requested Technical Staff to develop a project plan to consider the applicability of the current ethical and professional standards to Artificial Intelligence and Digital Technologies.

The [project plan](#) was reviewed by the Board and approved at the March 2020 Board meeting. The key phases of the project plan include information-gathering and research, analysis and review of APESB pronouncements. In addition, the project aims to understand how professional accountants use artificial Intelligence 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 project on Technology. 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 objective of the IESBA's project and its Technology Taskforce is to enhance the Code's provisions in response to the transformative effects of major trends and developments in technologies to maintain the Code's robustness and relevance.

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

Project progress update

Since the last Board Meeting, Technical Staff's work on the Technology project has been focused on data gathering and resource development. A high-level summary of the work performed is set out below.

Joint APESB-IESBA non-authoritative guidance

As noted at the last Board meeting, APESB was approached by the IESBA Technology Working Group to assist in developing non-authoritative material (NAM). As a result, APESB Technical Staff met with Brian Friedrich (the Chair of the IESBA TWG) and Kam Leung (IESBA Principal) and determined that APESB will assist with the development of NAM on Auditor Independence and Technology.

The NAM will provide guidance on applying the IESBA Code's provisions for specific auditor independence examples. The examples will be in the format of scenarios or 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 the use of technology in an audit engagement.

APESB Technical Staff have prepared a preliminary draft of these four case studies, which has now been sent to IESBA Technical Staff for review and consideration. Technical Staff will meet with representatives of the IESBA TWG in September 2021 to refine the draft further. The draft piece will be shared with the APESB Board in due course.

This NAM guidance material is planned to be released in Q4 of 2021.

Review of the status of IESBA's Technology project

A key outcome of APESB's technology project will be developing targeted information relating to Valuation and Forensic Accounting Services based on the IESBA's revisions to the IESBA Code. As such, APESB Technical Staff have been monitoring the progress of the IEBA project closely.

At their June Board meeting, the IESBA considered potential revisions to the IESBA Code. The key proposed revisions are:

- The guidance material for the fundamental principle of 'Professional Competence and Due Care' to be updated to refer to technical knowledge and professional skill, state the broad range of skills that are professional skills and refer to the International Education Standards for guidance on professional competence.
- The guidance material for the fundamental principle of confidentiality will be amended to emphasise the need to protect data and client information.
- Recognition that a threat may be created by the use of technology and inclusion of factors for a professional accountant to consider.

- Addition of new guidance material on complex circumstances in Section 120 *The Conceptual Framework*.
- Include additional requirements and material on relying on technology in Section 220 *Preparation and Presentation of Financial Information* with the materials on Relying on the Work of Others
- New application material in Section 400 *Applying the Conceptual Framework to Independence for Audit and Review Engagements* to emphasise management responsibility when services are driven by technology.
- Additional material in Section 520 *Business Relationships* to address situations where a firm may be selling or licensing the technology to an audit client. This material will also link through to the consideration of the provision of Non-Assurance Services to audit clients in Section 600 *Provision of Non-Assurance Services to an Audit Client*.
- New application material in Section 600 *Provision of Non-Assurance Services to an Audit Client* on automated services and the concept of 'routine or mechanical'.
- New application material in subsection 606 *Information Technology Systems Services* to highlight the range of services that are considered IT services (such as collecting, storing or hosting data). There is also new guidance material that clarifies what types of IT systems services will create self-review threats.
- A new definition for the term 'Confidential Information'.

The IESBA will be considering a first draft of the Technology exposure draft at the September 2021, with the exposure draft expected to be approved at the IESBA's December 2021 Board Meeting.

APESB Technical Staff will continue to monitor the developments at the International level and update the Board accordingly.

Desktop review and research

APESB Technical Staff continue to complete desk research on the impact of technologies in the professional environment. Staff have noted the following recent relevant publications as part of this review process:

- Joint publication on [Ethics in an era of complexity and digital change \(paper 1\)](#) - a joint publication by the Chartered Professional Accountants of Canada (CPA Canada), the Institute of Chartered Accountants of Scotland (ICAS), and IFAC. The first of four thought leadership pieces build on a collaborative exploratory paper and global roundtable event entitled Ethical Leadership in an Era of Complexity and Digital Change.
- [Ethics for sustainable AI Adoption: connecting AI and ESG](#) (August 2021) - joint CA ANZ and ACCA report. The report considers the role of accountants and finance professionals in the adoption of AI. The report also contains findings from a recent survey that shows:
 - 64% of survey respondents believed that AI positively impacts society's overall standard of living, but few thought it improved inequality.
 - Three in four survey respondents report being effective or very effective at managing confidentiality, and two in three at managing data quality.

- Of the respondents, 31% are aware of AI use within their industry and fewer than half (48%) have a basic understanding of how an AI algorithm works.

Way forward

As agreed at the APESB's June Board Meeting, the way forward for this project is for APESB Technical Staff to:

- Collaborate with the IESBA TWG on the development of NAM for auditor independence during the second half of 2021;
- Perform research on the impact of technologies on Forensic Accounting and Valuation Services and prepare a preliminary paper at the November 2021 Board meeting;
- Respond to the IESBA ED on Technology in the first half of 2022; and
- Prepare a final paper on the impact of technologies on APES 215 *Forensic Accounting Services* and APES 225 *Valuation Services* for the June 2022 Board meeting.

Staff Recommendation

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

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