

AGENDA PAPER

Item Number: 10
Date of Meeting: 26 November 2021
Subject: Project update on Technology

Action Required For Discussion For Noting For Information

Purpose

To:

- (a) provide the Board with an update on APESB's Technology project and other related developments; and
- (b) obtain the Board's feedback on the draft joint APESB-IESBA publication on auditor independence and Technology.

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 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 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 provided the Board with an update on the Technology project, including the development of joint APESB-IESBA NAM and a summary of potential Technology revisions to the IESBA Code presented at the June 2021 IESBA Board Meeting ([Agenda Item 9](#)).

Project progress update

Since the September 2021 Board Meeting, Technical Staff's work on the Technology project has focused on resource development and data gathering and is summarised below.

Joint APESB-IESBA Non-Authoritative Material

As noted at the September 2021 Board meeting, APESB Technical Staff collaborated with Mr Brian Friedrich (IESBA TWG Chair) and Ms Kam Leung (IESBA Principal) to develop NAM on Auditor Independence and Technology. APESB Technical Staff created a preliminary draft of four case studies that address circumstances 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.

In October 2021, APESB Technical Staff received feedback and comments from the IESBA Technical Staff in relation to the preliminary draft and met with them to discuss their feedback and comments. As a result of the discussion, APESB Technical Staff have updated the case studies to align to the recent revisions to the IESBA Code for non-assurance services and the role and mindset expected of professional accountants and addressing other feedback provided by the IESBA Staff.

APESB Technical Staff are now seeking the Board's feedback and comments on the revised working draft of the NAM, which is attached at Agenda Item 10(a).

Subject to the Board's comments and editorials, APESB Technical Staff plan to liaise with the professional bodies in relation to the NAM and the approach outlined in the case studies. After the consultation with the professional bodies, the updated draft will be provided to the IESBA Technical Staff for further review and consideration.

This NAM is now planned to be released in Q1 of 2022.

Review of the status of IESBA's Technology project

A key outcome of APESB's Technology project will be determining the impact of AI and digital technologies on APESB's Valuation and Forensic Accounting Services standards, which will be influenced by the IESBA's Technology revisions to the IESBA Code. Therefore, APESB Technical Staff are continuing to monitor the progress of the IESBA Technology project.

At the September 2021 IESBA Board meeting, the Board considered an update on [Technology NAM and Fact-Finding](#) from the TWG, an [update from the Technology Taskforce](#) on issues and proposals and the first draft of [Technology-related Revisions](#).

The IESBA TWG has continued fact-finding activities and facilitating the development of NAM with IFAC in collaboration with APESB (discussed above), the Japanese Institute of CPAs on practical issues in ethical leadership for professional accountants and CPA Canada and the Institute of Chartered Accountants in Scotland on four thought leadership pieces.

The IESBA TWG also proposed the establishment of an [External Technology Advisory Committee](#), consisting of National Standard Setters (NSS) and other experts, including regulators and professional accountants in business and practice, with the following objectives:

- Source of fact-finding for the TWG;
- Possible collaborators and peer reviewers for future NAM; and
- Raising awareness of collaborative NAM.

IESBA has invited NSS to nominate appropriate experts from their jurisdiction as well as participate in the Committee. APESB intends to express an interest in contributing to the work of this Committee.

The Technology Taskforce presented a preliminary draft of the IESBA Technology exposure draft to the Board. The main changes proposed to the IESBA Code include:

- Subsection 113 *Professional Competence and Due Care* – guidance on evaluating whether the information provided is sufficient for the recipient to understand the service or activity provided and any limitations.
- Subsection 114 *Confidentiality* – guidance on taking appropriate action to secure information over the data lifecycle.
- Section 120 *The Conceptual Framework* – including factors when identifying threats to compliance with the fundamental principles from using technology and guidance on the increased challenges created by complex circumstances when applying the conceptual framework.
- Section 220 *Preparation and Presentation of Information* and Section 320 *Professional Appointments* – expanding relying on the work of others to include technology and factors to consider when determining whether reliance on technology is reasonable.
- Section 400 *Applying the Conceptual Framework to Independence for Audit and Review Engagements* – clarifying that requirements regarding assuming management responsibility apply irrespective of the extent of the use of technology.
- Sections 520 and 920 *Business Relationships* – including where the firm develops products or solutions jointly with an audit client as an example of a close business relationship and that if a firm sells or licences hardware or software to an audit/assurance client, these sections apply.
- Sections 600 and 950 *Provision of Non-Assurance Services* – clarifying that these sections apply where technology is used to provide professional services to an audit/assurance client or where the client uses technology sold or licensed to it by the firm.
- Subsection 601 *Accounting and Bookkeeping Services* – new factors to consider in whether an automated service is routine or mechanical, including whether there is judgement attributable to the firm.
- Subsection 606 *Information Technology Systems Services* – new guidance on what constitutes IT systems services, changes to determining when a client has taken responsibility for IT systems, guidance on when hosting client data assumes management responsibility, tightening of guidance on when IT systems do not create threats, and including examples of when IT systems might create a self-review threat.
- Section 900 *Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements* – including guidance relating to non-financial information such as sustainability disclosures, guidance on when

hosting client data assumes management responsibility and clarifying that requirements in respect of assuming management responsibility apply irrespective of the extent of the use of technology.

- Glossary – a new definition of Confidential Information

The IESBA Technology exposure draft is expected to be approved at the IESBA's December 2021 Board Meeting.

APESB Technical Staff also received an update on the IESBA's Technology Project at the National Standards Setters meeting on 26 October 2021.

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

Preliminary Paper on Forensic Accounting and Valuation Services

APESB Technical Staff intended to prepare a preliminary paper for the November 2021 Board meeting on the impact of technologies on Forensic Accounting and Valuation Services. However, we believe that this paper will be better informed, and it will be a more efficient use of resources if drafted at the same time as reviewing the IESBA Technology exposure draft. Therefore, this has been reflected in the amended way forward below.

Way forward

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

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

Staff Recommendation

The Board:

- (a) note the progress on APESB's technology project; and
- (b) provide feedback on the draft joint APESB-IESBA publication on auditor independence and technology.

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