

## AGENDA PAPER

**Item Number:** 7  
**Date of Meeting:** 3 June 2022  
**Subject:** Project update on Technology

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Action Required     For Discussion     For Noting     For Information

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### Purpose

To:

- provide the Board with an update on APESB's Technology project and related developments; and
- seek the Board's views and comments on a draft submission to IESBA on its Proposed Technology-related Revisions to the Code.

### 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). In addition, 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 following APESB meetings, the project has progressed as follows:

- June 2021 – the Board approved the initial focus of APESB's Technology project on forensic accounting and valuation Services ([Agenda Item 6](#)).
- September 2021 – Technical Staff updated the Board on joint APESB-IESBA NAM and potential Technology revisions to the IESBA Code ([Agenda Item 9](#)).
- November 2021 – Technical Staff updated the Board on the 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](#)).

- March 2022 – Technical Staff updated the Board on the progression of APESB-IESBA NAM, IESBA's Proposed Technology-related Revisions to the IESBA Code, and the IESBA's TWG and Technology Advisory Group ([Agenda Item 6](#)).

## Technology Project progress update

Since the March 2022 Board Meeting, Technical Staff have focused on data gathering and developing a submission to IESBA, as summarised below.

### IESBA Proposed Technology-related Revisions to the Code

At the November-December 2021 IESBA meeting, the Board approved an Exposure Draft on [Proposed Technology-related Revisions to the Code](#), which was released on 18 February 2022 (Technology ED). Technical Staff provided a summary of the changes to the Board in March 2022 ([Agenda Item 6\(a\)](#)).

APESB held a Roundtable event with Australian stakeholders from national standard setters, professional accounting bodies, firms and regulators on 9 May 2022 to discuss the Technology ED and obtain feedback to inform APESB's submission.

APESB's presentation to the Roundtable on the Technology ED summarised the proposals ([Agenda Item 7\(a\)](#)). The key matters raised by stakeholders were:

- The material on 'complex circumstances' is quite theoretical, and practical examples are required of complex circumstances and the related consequences when performing a professional activity.
- More clarity is required on what is considered 'the bar' of professional competency and due care in relation to technology. For example, it was presumed that not all accountants need to be technology experts, but clarity is required on whether Members can delegate to others within a firm/organisation with the relevant expertise. Again, stakeholders believed this could be addressed with examples and case studies.
- Whilst it was understood that the proposed guidance was aiming to be 'technology agnostic' this resulted in it being broad and challenging to apply.
- The meaning of "*whether the technology incorporates expertise or judgements of the accountant/employing organisation/firm*" in proposed paragraphs 200.6 A2 and 300.6 A2 requires clarity as different stakeholders interpreted this differently.
- There is some level of alignment between the factors to consider whether reliance on technology is reasonable or appropriate (proposed paragraphs 220.7 A2 and 320.10 A2) with ASQM 1. Stakeholders suggested that non-authoritative material would be helpful in how to apply the factors.
- Changes to Section 520 *Business Relationships* appear to be 'piecemeal'. Perhaps a more holistic review of this Section is required, and the examples added would not even be considered by firms in practice.
- The most substantive matters raised related to IT Systems Services that assume management responsibility:
  - Hosting (directly or indirectly) an audit client's data – stakeholders were concerned that this does not recognise that nearly all information is now hosted in the cloud, the proposal is too broad, and it is important to distinguish the nature of the data and the hosting service provided.

- Operating an audit client's network security, business continuity or disaster recovery – stakeholders felt this was narrow and questioned why these specific services were chosen.
- Stakeholders expressed the view that the IESBA should also highlight the benefits of Technology rather than just focusing on problems.

Technical Staff have developed a draft submission to the IESBA on the proposed revisions and seek the Board's observations, review and editorial comments (Agenda Item 7(b)). The key recommendations in the draft submission for the IESBA's consideration are:

- Provide greater clarity on the meaning of the wording “*Whether the technology incorporates expertise or judgements of the accountant or the employing organisation/firm*” in proposed paragraphs 200.6 A2 and 300.6 A2 and similar wording used in proposed paragraph 601.5 A2.
- Increase guidance on the level of technological competence required by accountants to understand the outputs of Technology, either through additional material in the IESBA Code or examples and case studies in non-authoritative material after the standard is finalised.
- Including an additional potential mitigating factor for the proposed paragraph 120.13 A3 to document the uncertain elements, multiple variables and assumptions and how they are interconnected or interdependent.
- Develop additional guidance or non-authoritative material after the standard is finalised on the operation of proposed paragraphs 120.13 A1 to A3, how technology creates complex circumstances, and the consequences if it is complex.
- Undertake a more holistic review of Part 4B to determine whether it is fit for purpose to determine the independence requirements for Environmental, Social and Governance (ESG) disclosures.

Submissions on the Technology ED are due by 20 June 2022.

#### IESBA's Technology Working Group and Technology Expert's Group

IESBA received an [update](#) at its March 2022 meeting on the TWG's fact-finding activities and targeted outreach, technology-related resource development, and the IESBA Technology Experts Group (TEG) (formerly referred to as Technology Advisory Group).

The TEG members were [announced](#) on 16 March 2022. The TEG consists of technology experts to function as a sounding board to support and provide input to help inform the TWG's fact-finding work and deliverables. As noted at the March 2022 APESB meeting, Jon Reid, APESB Senior Technical Manager, was nominated to support the operation of the TEG and was subsequently appointed as technical staff support for the group.

The TEG's first meeting was held in April 2022 and focussed on the TWG's briefing paper and provided input on the key themes identified by the TWG's fact-finding to date.

The joint APESB-IESBA NAM on auditor independence is now scheduled to be released in Q3 2022.

The TWG will provide a further update at the June 2022 IESBA meeting, including the TWG's preliminary draft fact-finding report. APESB Technical Staff will continue to monitor developments and update the Board accordingly.

## Technical Staff 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 Technology ED will also influence.

Technical Staff have commenced desk-top research into the types of technologies utilised in forensic accounting and valuation services and how such technology may impact those services, including from an ethical perspective. Technical Staff also propose to develop a survey covering such topics to obtain feedback from the members of the Valuation and Forensic Accounting Taskforces.

Technical Staff will prepare a preliminary report on the findings of the above in the second half of 2022, followed by a final paper in the first half of 2023.

### **Small and Medium Practices (SMPs)**

Technical Staff note that due to potential resource constraints or reduced access to internal technological expertise within SMPs, Members in Public Practice in such firms may find it more challenging to address the material in the IESBA's Technology ED. For example, this could impact the considerations relevant in identifying threats when relying on technology outputs and the factors to consider on whether relying on such outputs is appropriate. Accordingly, Technical Staff have included a General Comment in this regard within the draft submission to IESBA for the Board's consideration.

No other issues specific to SMPS are noted at this stage in respect of the APESB's Technology Project, but this will continue to be monitored and considered as the project progresses.

### **Way forward**

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

- subject to the Board's observations, review and editorial comments, make a submission to IESBA on the Technology ED by 20 June 2022;
- continue to collaborate with the TWG on the development and publication of the joint APESB-IESBA NAM in Q3 of 2022;
- continue to provide technical staff support to the TEG as required; and
- continue desk-top research, conduct stakeholder engagement on the impact of technologies on APES 225 and APES 215, and prepare a preliminary paper in the second half of 2022 and a final report in the first half of 2023.

### **Staff Recommendation**

The Board:

- note the progress on APESB's Technology project; and
- provide the Board's observations, review, and editorial comments regarding APESB's draft submission to IESBA on the Technology ED.

**Materials Presented**

Agenda Item 7(a) APESB presentation on IESBA's Proposed Technology-related Revisions to the Code

Agenda Item 7(b) Draft submission to IESBA on its Proposed Technology-related Revisions to the Code

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