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Mr Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants (IESBA)
International Federation of Accountants (IFAC)
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By email: kensiong@ethicsboard.org

Dear Mr Siong,

IESBA's Exposure Draft *Proposed Technology-related Revisions to the Code*

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the IESBA's Exposure Draft *Proposed Technology-related Revisions to the Code* (Technology ED).

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, high-quality professional and ethical pronouncements. These pronouncements apply to the membership of the three major Australian professional accounting bodies (Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants). In Australia, APESB issues APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) and a range of professional and ethical standards that address non-assurance services.

Overall comments

APESB is supportive of the IESBA's Technology ED to make amendments to the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code) so that it remains relevant and fit for purpose in response to the transformative effects of technology on the work of professional accountants.

APESB agrees with IESBA's approach to developing the revisions to the IESBA Code in a principle-based manner to preserve its relevance as technology evolves.

APESB conducted a Roundtable event on 9 May 2022 to obtain stakeholder feedback on the Technology ED, which we have considered and incorporated into our response to IESBA where relevant. The stakeholders who attended the Roundtable included representatives from standard setters, professional accounting bodies and accounting firms.

APESB's key recommendations are noted below, and Appendix A provides APESB's responses to the IESBA's specific and general questions.

Recommendations

APESB's key recommendations in relation to the Technology ED 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.
- Include 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 related consequences when performing a professional activity.
- 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.

Concluding comments

We trust you find these comments helpful in your final deliberations. If you require additional information, please contact APESB's Principal, Ms. Jacinta Hanrahan, at Jacinta.Hanrahan@apesb.org.au.

Yours sincerely

Nancy Milne OAM
Chairman

APPENDIX A

APESB's Specific Comments

APESB's responses to the request for specific comments by the IESBA on the proposals in the Technology ED are as follows:

Technology-related Considerations When Applying the Conceptual Framework

- 1. Do you support the proposals which set out the thought process to be undertaken when considering whether the use of technology by a PA might create a threat to compliance with the fundamental principles in proposed paragraphs 200.6 A2 and 300.6 A2? Are there other considerations that should be included?**

APESB agrees with IESBA's approach to include these considerations in Sections 200 and 300 (rather than Section 120) as it will make it more visible to professional accountants when identifying threats.

APESB supports the considerations in proposed paragraphs 200.6 A2 and 300.6 A2. However, APESB recommends that the IESBA provide greater clarity on the meaning of the consideration "*Whether the technology incorporates expertise or judgements of the accountant or the employing organisation/firm*". Varied stakeholder views were discussed at APESB's Roundtable:

- One view was that this means that the technology is undertaking work requiring expertise or judgement in lieu of the accountant (i.e., without the technology, the accountant would be using that expertise or judgement), and it is, therefore, part of the professional activity provided and the responsibility of the accountant.
- Another view was that the accountant had used their expertise, judgements or decisions on how the technology operates, such as setting assumptions or parameters.

We believe that IESBA should clarify this consideration.

Determining Whether the Reliance on, or Use of, the Output of Technology is Reasonable or Appropriate for the Intended Purpose

- 2. Do you support the proposed revisions, including the proposed factors to be considered, in relation to determining whether to rely on, or use, the output of technology in proposed paragraphs R220.7, 220.7 A2, R320.10 and 320.10 A2? Are there other factors that should be considered?**

APESB supports IESBA's approach to recognise that relying on the outputs of Technology is akin to relying on the work of others or experts and resultant proposed revisions to paragraphs R220.7 and R320.10. Accordingly, APESB agrees with the factors to consider in proposed paragraphs 220.7 A2 and 320.10 A2 on whether reliance on Technology outputs is reasonable or appropriate.

However, APESB believes further clarity may be required about the factor of "*the professional accountant's ability to understand the output from the technology for the context in which it is to be used*". Stakeholders at APESB's Roundtable expressed some uncertainty about what is expected of accountants to understand the output, such as what level of technological expertise is required. Does this mean the accountant would need to understand exactly how the technology derived the output?

Paragraph 36(a) of the Technology ED Explanatory Memorandum provides context concerning this and states, “*Although PAs do not need to be experts in technology, the IESBA anticipates that they will have a reasonable degree of awareness and understanding of certain matters with a view to deciding whether reliance on the output of technology is reasonable*”. However, this position is not clearly reflected or evident in the proposed revisions. APESB stakeholders believed this could be addressed with examples and case studies, perhaps via non-authoritative material.

APESB recommends that further guidance is provided on the level of technological competence required by accountants to understand the outputs of Technology either through additional guidance material in the IESBA Code or examples and case studies in non-authoritative material after the standard is finalised.

Consideration of “Complex Circumstances” When Applying the Conceptual Framework

3. Do you support the proposed application material relating to complex circumstances in proposed paragraphs 120.13 A1 to A3?

APESB understands why IESBA has not made the application material on complex circumstances specific to technology to ensure the IESBA Code remains relevant and fit-for-purpose and not restrict the provisions to technology-specific situations. However, some stakeholders at APESB’s Roundtable believed this material was theoretical but could be supplemented with practical examples of how technology creates complex circumstances and the related consequences when performing a professional activity.

APESB is of the view that the examples in paragraph 23 of the Technology ED Explanatory Memorandum could form the basis for examples explaining how proposed paragraphs 120.13 A1 to A3 operate from a technological perspective.

APESB recommends that the IESBA 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 related consequences when performing a professional activity.

APESB recommends that the IESBA consider including another potential mitigating factor for the proposed paragraph 120.13 A3, which is documenting the uncertain elements, multiple variables, and assumptions and how they are interconnected or interdependent.

4. Are you aware of any other considerations, including jurisdiction-specific translation considerations (see paragraph 25 of the explanatory memorandum), that may impact the proposed revisions?

Not applicable.

Professional Competence and Due Care

5. **Do you support the proposed revisions to explain the skills that PAs need in the digital age, and to enhance transparency in proposed paragraph 113.1 A1 and the proposed revisions to paragraph R113.3, respectively?**

APESB supports revising the IESBA Code to explain the skills needed by professional accountants in the digital age. However, we do not believe that the proposed revisions to paragraph 113.1 A1 to include “soft” skills does enough in this regard. Some stakeholders at APESB’s Roundtable believed more clarity is required on what is considered ‘the bar’ of professional competency and due care in relation to technology. While stakeholders presumed that not all accountants need to be technology experts, there was a lack of clarity on whether accountants can “delegate” to others within a firm/organisation who has the required expertise. Also, refer to the discussion and recommendation in Question 2 above.

APESB supports the proposed revision to paragraph R113.3 to require professional accountants to provide sufficient information to stakeholders to understand the implications of limitations to services or activities.

6. **Do you agree with the IESBA not to include additional new application material (as illustrated in paragraph 29 of the explanatory memorandum) that would make an explicit reference to standards of professional competence such as the IESs (as implemented through the competency requirements in jurisdictions) in the Code?**

APESB does not have a strong objection to the IESBA Code, including reference to the IES. Therefore, we believe that IESBA could consider including paragraph 113.1 AX set out in paragraph 29 of the Technology ED Explanatory Memorandum, or alternatively, refer to the IES by way of a footnote.

Confidentiality and Confidential Information

7. **Do you support (a) the proposed revisions relating to the description of the fundamental principle of confidentiality in paragraphs 114.1 A1 and 114.1 A3; and (b) the proposed Glossary definition of “confidential information?”**

APESB supports proposed paragraph 114.1 A1 in relation to maintaining the confidentiality and securing that information throughout the data governance cycle and the proposed definition of ‘confidential information’.

8. **Do you agree that “privacy” should not be explicitly included as a requirement to be observed by PAs in the proposed definition of “confidential information” in the Glossary because it is addressed by national laws and regulations which PAs are required to comply with under paragraphs R100.7 to 100.7 A1 of the Code (see subparagraph 36(c) of the explanatory memorandum)?**

APESB agrees that ‘privacy’ should not be explicitly included as a requirement to be observed in the proposed definition of ‘confidential information’ as it is addressed by national laws and regulations that apply to accountants.

In Australia, there are [Australian Privacy Principles](#) that are the cornerstone of the framework of the Australian *Privacy Act 1988* and applies to all organisations that are covered by that Act.

APESB understands IESBA's rationale for not including terminology such as accountability, transparency and explainability in the IESBA Code because these terms have varying definitions.

Independence (Parts 4A and 4B)

9. Do you support the proposed revisions to the International Independence Standards, including:

(a) The proposed revisions in paragraphs 400.16 A1, 601.5 A2 and A3 relating to “routine or mechanical” services.

APESB supports proposed paragraphs 400.16 A1 and 601.5 A2 and A3.

A common misconception that automated services are ‘routine or mechanical’ was encountered when APESB developed the [Independence Guide – Fifth Edition](#) in conjunction with CA ANZ, CPA Australia and IPA. This was particularly the case regarding accounting and bookkeeping services provided to self-managed superannuation fund (SMSF) audit clients.

APESB believes the proposed revisions in paragraph 601.5 A2 to highlight that accounting and bookkeeping services can be manual or automated and that automated services are not necessarily ‘routine or mechanical’ will help dispel the above misconception. However, we believe the terminology ‘*whether the technology is based on expertise or judgments of the firm or network firm*’ requires clarification (refer to discussion and recommendation in Question 1 above).

APESB agrees with the commentary in paragraph 46 of the Technology ED Explanatory Memorandum that automated services could result in the assumption of management responsibility. This was another matter addressed when APESB, CA ANZ, CPA Australia and IPA developed the [Independence Guide – Fifth Edition](#) and scenarios relating to SMSF audit clients.

APESB note the NAS revisions to the IESBA Code added the reference in paragraph 601.5 A2 (now proposed paragraph 601.5 A3) to paragraph R400.14 (now paragraph R400.16). APESB believes a reference to proposed paragraph 400.16 A1 in proposed paragraph 601.5 A3 would also be beneficial to emphasise further that when technology is used in accounting and bookkeeping services provided to an audit client, management responsibility requirements apply regardless of the nature or extent of technology used.

- (b) The additional proposed examples to clarify the technology-related arrangements that constitute a close business relationship in paragraph 520.3 A2. See also paragraphs 40 to 42 of the explanatory memorandum.**

APESB supports the proposed amendments and the new example of a close business relationship in paragraph 520.3 A2. APESB agrees that the examples in paragraph 40(a) and (b) of the Technology ED Explanatory Memorandum are likely covered by the second bullet point of paragraph 520.3 A2 and with IESBA's approach set out in paragraphs 40 to 41 of the Memorandum.

However, some stakeholders at APESB's Roundtable believed the proposed changes to Section 520 appear 'piecemeal' and a more holistic review may be warranted.

- (c) The proposed revisions to remind PAs providing, selling, reselling or licensing technology to an audit client to apply the NAS provisions in Section 600, including its subsections (see proposed paragraphs 520.7 A1 and 600.6).**

APESB supports the proposed revisions to remind accountants that the use of Technology in non-assurance services to an audit client (proposed paragraph 600.6) or to provide, sell, resell or license Technology to an audit client (proposed paragraph 520.7 A1) results in Section 600 of the IESBA Code applying.

10. Do you support the proposed revisions to subsection 606, including:

- (a) The prohibition on services in relation to hosting (directly or indirectly) of an audit client's data, and the operation of an audit client's network security, business continuity and disaster recovery function because they result in the assumption of a management responsibility (see proposed paragraph 606.3 A1 and related paragraph 606.3 A2)?**

APESB supports the prohibition on hosting (directly or indirectly) an audit client's data or the operation of an audit client's network security, business continuity or disaster recovery function, where the service results in assuming management responsibility.

Some stakeholders at APESB's Roundtable raised concerns that the proposed revisions are too broad, fail to recognise that nearly all information is now hosted in the cloud, and it is important to distinguish the nature of the data and the hosting service provided. However, APESB notes and supports proposed paragraph 606.3 A2 which states that the collection, receipt and retention of data for a permissible service would not usually result in an assumption of management responsibility.

- (b) The withdrawal of the presumption in extant subparagraph 606.4 A2(c) and the addition of “Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm” as an example of an IT systems service that might create a self-review threat in proposed paragraph 606.4 A3?**

APESB supports the withdrawal of the presumption that providing ‘off the shelf’ accounting and finance software to audit clients does not usually create a self-review threat as such software is typically tailored to the client’s requirements during implementation and might create a self-review threat.

- (c) The other examples of IT systems services that might create a self-review threat in proposed paragraph 606.4 A3?**

APESB supports the examples in proposed paragraph 606.4 A3 that might create a self-review threat and would therefore be prohibited from being provided to Public Interest Entity audit clients under paragraph R606.6.

11. Do you support the proposed changes to Part 4B of the Code?

APESB supports the proposed changes to Part 4B of the Code to preserve alignment with the changes to Part 4A. APESB commends the IESBA for recognising the importance of environmental, social and governance (ESG) disclosures. However, we encourage the IESBA to undertake a more holistic review of Part 4B to determine the appropriateness of the independence requirements for Environmental, Social and Governance (ESG) disclosures.

APESB’s General Comments

APESB’s general comments on the Technology ED for the IESBA’s consideration are as follows:

(a) *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)*

APESB notes that due to potential resource constraints or reduced access to internal technological expertise within SMPs, professional accountants in such firms may find addressing the IESBA’s Technology ED material more challenging. 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.

(b) *Regulators and Audit Oversight Bodies*

No specific concerns regarding the proposed revisions in relation to regulators and audit oversight bodies have been brought to the APESB’s attention.

(c) *Developing Nations*

Not applicable.

(d) *Translations*

Not applicable.