APESB review of Recommendations in the IESBA Technology Working Group Final Report

In November 2022, the IESBA's Technology Working Group released their Final Report (Phase 2). The report provided an overview of the technology work performed by the IESBA, noted the relevance of the IESBA Code to the evolving technology landscape and set out ten recommendations of matters that could be considered further to enhance the professional and ethical standards related to Technology.

APESB Technical Staff have performed a review of these recommendations to determine whether APESB need to undertake additional work or provide guidance for the Australian jurisdiction on these matters. In assessing the recommendations and the IESBA's response, we have considered the IESBA final pronouncement *Technology-related Revisions to the Code* issued in April 2023, as well as the following series of non-authoritative material (NAM) on technology:

- Technology Landscape series which covered the following topics: Artificial Intelligence, Blockchain, Cloud Computing, Focus on Data Governance, Robotics Process Automation, and Other Technologies released in December 2022.

- Potential Ethics Impact on the Behaviour of Professional Accountants (Pas) series, which covered the following topics: Independence, Competence and Due Care, Objectivity, Responsibility for Transparency and Confidentiality, released in December 2022.

- Public Interest Accountability of PAs released in December 2022.

- Applying the Code's Conceptual Framework to Independence: Practical Guidance for Auditors in Technology-Related Scenarios jointly released by APESB and IESBA in July 2023.

The detailed analysis is set out in the table overleaf. However, APESB Technical Staff note that the IESBA have addressed most of these recommendations in full in either the IESBA Code or in non-authoritative guidance material. The topics covered in the non-authoritative material are broad and cover many ethical matters related to technological developments. The guidance has been developed from a global perspective and is not limited to issues relevant to the jurisdiction of the authors.

APESB Technical Staff are of the view that no Australian-specific material needs to be included in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards) (APES 110)* for these recommendations, nor is there a need for separate guidance material from an Australian perspective.

Item No.	IESBA TWG Recommendations	Relevant information in the IESBA Code and Technology NAM	APESB action required
Data Used for AI Training			
A.	Revise the Code, for example, in Subsection 114 *Confidentiality*, to clarify whether firms and organisations may use client or customer data for internal purposes, such as training AI models, and if so, the parameters of such use (prior, informed consent; anonymisation). Non-authoritative guidance should be developed to specifically emphasize the expectations for complying with the fundamental principle of integrity when using client or customer data for AI training, i.e., obtaining consent that is meaningful, informed, and transparent.	***Technology-related revisions to the IESBA Code*** The new paragraph 114.3 A3 addresses the use of client or customer data for internal purposes, including: • Providing examples where firms or organisations might seek authorisation to use or disclose confidential information such as for "internal training" purposes. • Considerations to be communicated when obtaining authorisation, including the nature of the information, the purpose of using the information and who will use the information. • Consideration of whether the identity of the individual or entity that provided the data will be identifiable from the output of the activity for the information to be used or disclosed. In paragraph 43 of *IESBA's Basis for Conclusions for Technology revisions*, the IESBA emphasises the need for PAs to evaluate and balance the risks when determining whether to use anonymising confidential information, by considering the availability of tools and techniques for both complete anonymisation and its reversal. ***Non-authoritative material*** Key guidance material relevant to data used for AI training is set out in: Technology Landscape: Artificial Intelligence • Para. 5 – Notes the benefits of "real" AI training data using actual client and customer data in improving the quality of AI model's output, and the associated risks to cybersecurity, confidentiality, privacy, and independence. Technology Landscape: Focus on Data Governance: • Para. 8 – Questions whether the use of actual data for training purposes meets the fundamental principles of integrity and confidentiality, even in situations where consent is obtained, or data is anonymised. • Para. 9 – Provides examples of matters a PA should consider on the appropriateness of governance around data quality and its use, in ensuring the accuracy, objectivity, consistency, and completeness of data for decision-making and/or sharing with third parties.	No. Technical Staff note that the recommendation has been adequately addressed in the IESBA Code and Technology NAM. Additionally, Technical Staff do not believe Australian-specific material is necessary.

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Transparency and Explainable AI			
B.	Develop further guidance around the importance of transparency and explainability, whether through non-authoritative guidance or in the Code, specific to when a PA relies on or uses transformative technologies (e.g., AI). Such guidance would highlight that PAs cannot abdicate their public interest responsibility and accountability when relying on or using technology (even in highly automated environments). This additional guidance might explicitly set out expectations for a PA when relying on a technological solution. For example, before relying on a machine learning tool, the PA would be expected to ensure that the tool is explainable (i.e., that they can reasonably understand the rationale for decisions made by the technology). The Working Group believes that the PA need not be the expert who can explain the tool but should have access to such an expert and should obtain a reasonable understanding in order to be comfortable with the tool's inputs, processing, and outputs. Furthermore, consideration should be given to the ethics expectations for PAs when they are involved with developing transformative technology solutions, for example, that they are expected to promote the development of explainable systems, particularly in high-stakes applications.	***Technology-related revisions to the IESBA Code*** New paragraphs were introduced to provide examples of circumstances that might create self-interest threats and to evaluate the associated threats arising from the use of technology. The relevant paragraphs around explainability are as follows: • 200.6 A2 & 300.6 A2 – Examples that might create self-interest threat include *"The accountant might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended."* • 200.7 A4 & 300.7 A6 – Safeguards include regular training to ensure employees "…*obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness when using technology.*" ***Non-authoritative material*** Key areas on transparency and explainability of AI are covered in the following guidance material released by the IESBA: Technology Landscape: Artificial Intelligence • Para. 2 – Specifies the significant risk that AI systems will become less explainable as they continue to grow in sophistication and complexity. • Para. 11 – Highlights that PAs cannot be expected to be the "expert" in technology, but in order to rely on a system, PAs must be comfortable that the output from the technology is reasonable. • Para. 13 – Explains that the volume of data inputs and inherent complexity can lead to the system lacking transparency and explainability, and the potential impact of bias goes undetected. However, regular monitoring and feedback about developments or changes in the AI outputs and consulting with experts might help PAs assess the ongoing reasonableness of the outputs. Potential Ethics Impact on the Behaviour of PAs: Objectivity highlights that technology needs to be understandable in order to be relied upon (either the use of or the outputs of the tool). It also provides approaches to developing transparent and explainable AI systems (refer to para. 9 to 12).	No. Technical Staff note that the recommendation has been adequately addressed in the IESBA Code and Technology NAM. Additionally, Technical Staff do not believe Australian-specific material is necessary.

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	Data Governance, including Custody of Data		
C.	<u>Revise the Code</u> to address the ethics implications of a PA's custody or holding of financial or non-financial data belonging to clients, customers, or other third parties. Such a workstream could be scoped to also include considering threats to compliance with the fundamental principles given the complexity created for PAs who need to remain current with an evolving patchwork of cross- and intra-jurisdictional data privacy laws and regulations, as well as the ethics challenges related to data governance and management (including cybersecurity). Continue raising awareness of a PA's strategic role in data governance and management (including cybersecurity) and <u>develop educational resources</u> to highlight such a role.	***Technology-related revisions to the IESBA Code*** New paragraphs were introduced to strengthen the principle of confidentiality in the course of professional and business relationships, as follows: • 114.1 A1 – Highlights that the PAs must protect the confidential information "*…in the course of its collection, use, transfer, storage, or retention, dissemination and lawful destruction*". • R114.2(d) – New bullet point to address a PA's obligation to comply with the principle of confidentiality where information acquired in the course of professional and business relationships has become publicly available, whether properly or improperly. • R114.3 - Provides an exception where a PA might disclose or use confidential information, where there is a legal or professional duty or right to do so or authorised by the client and this not prohibited by law or regulation. ***Non-authoritative material*** In response to raising awareness, the IESBA released Technology Landscape: Focus on Data Governance that focuses on data governance, including cybersecurity. The guidance includes considerations of the appropriateness of data governance, and suggestions for heightened awareness regarding cybersecurity. *IESBA Strategy and Work Plan 2024-2027* The IESBA has approved "Custody of Data" as an "Other Topic of Interest" in IESBA Strategy and Work Plan 2024-2027 (SWP). The IESBA aims to consider this matter towards the end of the strategy period (refer to Para. 118 of SWP). Under this work stream, the IESBA will consider: • Investigating the ethics implications of a PA's custody of financial or non-financial data belonging to clients, customers, or other third parties. • Consider whether the Code sufficiently addresses these issues, including whether there is a need to establish a new section in Part 3 of the Code to capture the ethics considerations relating to the custody of data, like how Section 350 of the Code addresses custody of client assets.	No. Technical Staff note that the recommendation has been adequately addressed in the IESBA Code and Technology NAM. Additionally, Technical Staff do not believe Australian-specific material is necessary. Further this will be an issue to be addressed by IESBA in its 2024-27 SWP.

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Ethical Leadership and Decision-making			
D.	With a view to the broader expectations for PAs to exhibit and champion ethical leadership and decision-making, develop <u>non-authoritative guidance</u> to emphasize the potential actions a PA might take when applying the conceptual framework and complying with the Code's fundamental principles in technology-related scenarios relevant across various PA roles and activities.	***Non-authoritative material*** The following NAM provides guidance to assist PAs in the application of the conceptual framework and adherence to the Code's fundamental principles. Public Interest Accountability of PAs • Para. 6 to 12 - Discusses the importance of PAs being ethical leaders and being involved in the decision-making process for developing or implementing technologies in their organisations. • Para 9 – Provides guidance on how PAs can add value when decision-making throughout the technology design process. • Para. 10 – Highlights the PA's ethical responsibility to control cyber-attack prevention and response plans and data governance. Ethical Leadership In a Digital Era: Applying the IESBA Code to selected technology-related scenarios • Provides seven hypothetical scenarios to assist PAs navigate practical issues in ethical leadership when using or implementing technology. • Each scenario illustrates ethics, including independence and considerations for PAs as they apply the Code in their decision-making. Applying the Code's Conceptual Framework to Independence: Practical Guidance for Auditors in Technology-Related Scenarios • Set out the three practical examples to demonstrate how to apply the independence requirements in the Code.	No. Technical Staff note that the recommendation has been adequately addressed in the IESBA Code and Technology NAM. Additionally, Technical Staff do not believe Australian-specific material is necessary.
Communication with Those Charged with Governance (TCWG)			
E.	To strengthen the concepts of transparency and accountability, <u>add new material to the Code</u> as part of the subsections on "communication with TCWG" in Parts 2 and 3 to encourage, or require, meaningful communication with TCWG by PAs (including individual Professional Accountants in Public Practice (PAPPs) and firms) about technology-related risks and	***IESBA Strategy and Work Plan 2024-2027*** In the IESBA Strategy and Work Plan 2024-2027 (SWP) "Communications with TCWG" has been included as an "Other Topic of Interest." It will be considered towards the end of the strategy period (refer to Para. 118). Under this work stream, the IESBA will consider: • Whether there would be merit in adding new provisions relating to "communication with TCWG" in Sections 200 and 300 to stimulate	No. As this matter is included in the IESBA's SWP, Technical Staff are of the view that APESB should wait for the

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	exposures that might affect PAs' compliance with the fundamental principles and, where applicable, independence requirements. These concepts are not unique to technology-related risks and exposures, but rather are broadly applicable whenever there are risks and exposures that might affect PAs' compliance with the fundamental principles and, where applicable, independence requirements (e.g., technology, tax planning, sustainability). There is an opportunity to incorporate such communications into the Code more generally in the future, so that it can be considered under all circumstances.	meaningful communication with TCWG by PAs about risks and exposures that might affect the PAs' compliance with the fundamental principles, and, where applicable, independence requirements. • For auditors, this work stream will consider the interaction with requirements already contained in ISA 260 (Revised), *Communication with Those Charged With Governance*. The IESBA will also consider the outputs of its Use of Experts project in this area.	IESBA to conduct their analysis of this matter before acting locally.
Reliance on, or Use of, Experts			
F.	Develop non-authoritative guidance and/or revise the Code in paragraphs 220.7 A1 and 320.10 A1 to emphasize the importance of a PA assessing the extent to which an expert being used and relied upon behaves in alignment with the Code's fundamental principles, and the factors to consider in making such an assessment. Such guidance would be applicable whenever experts are used (e.g., technology, tax planning, sustainability) and goes beyond independence considerations.	***Technology-related revisions to the IESBA Code*** New paragraphs pertaining to "Other Considerations" under section 220 and 320 were introduced for PA's consideration when assessing the work of experts or the output of technology: • 220.12 A4 & 320.12 A1 recognise that a PA's position impacts their ability to obtain information to determine whether such use is appropriate. ***IESBA Project on Use of Experts*** The IESBA's current project Use of Experts involves a holistic review of the Code addressing the use of experts from both the ethics and independence perspective. The objectives of the project are to address ethics and independence considerations relating to the use or involvement of an: • external expert in audit and assurance engagements. • expert (both internal or external) in the preparation and presentation of financial and non-financial information, including sustainability information, and other activities. • expert (both internal or external) in the provision of other services (such as tax planning and technology-related activities).	No Due to the in-progress status of the IESBA's Use of Expert project, Technical Staff believe no action is required to be undertaken by APESB at this stage.

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		The IESBA have released an Exposure Draft addressing using the work of an external experts. The comment period closes on 30 April 2024.	
Threshold for "Sufficient" Competence			
G.	Engage more actively with other bodies, such as IFAC's International Panel on Accountancy Education (IPAE) and professional accountancy organisations (PAOs), to encourage them to arrange educational activities to raise awareness about the characteristics of "sufficient" competence in the context of the Code and the International Education Standards (IESs). Such other bodies are better placed to develop non-authoritative guidance to illustrate and emphasize how the Code's principles apply when determining sufficient competence.	***Non-authoritative material*** The IESBA have released Potential Ethics Impact on the Behaviour of PAs: Competence and Due Care to raise awareness on the need for competence, diligence and due care in the digital age, in which: • Para. 6 – Stresses that PAs do not need to be "experts" in technology but do need "sufficient" competence in the area. • Para. 7 – Defines the attributes of "sufficient" competence in technology, such as asking IT professionals appropriate questions and understanding their responses, being confident in understanding the system or tool, and be able to justify the use or outputs of the tool. • Para. 11 – Outlines five key areas for technology upskilling, including specific examples of skills deemed important by stakeholders. ***IESBA Strategy and Work Plan 2024-2027*** A strategic theme in IESBA Approved Strategy and Work Plan 2024-2027 (SWP) is "Widening the Influence of the IESBA's Standards Through a Continued Focus on Adoption and Implementation." The relevant proposed strategic actions (refer to Para. 64) to address this recommendation, include: • Engaging in outreach around the world to raise awareness of the importance of ethics, and to promote further adoption of the Code. • Collaborating with IFAC to promote the importance of global consistency of standards across jurisdictions. • Working with IFAC and other stakeholders to encourage more support for IESBA's standards and publications. • Developing or facilitating the development of non-authoritative materials to support the adoption and effective implementation of standards.	Yes. Technical Staff note that relevant non-authoritative material has been issued by the IESBA. However, it is an ongoing responsibility for both APESB and IESBA to actively engage with other bodies to raise awareness of ethics and promote the adoption of the Code.

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Pressure on PAs			
H.	Revise the Code, for example, within Section 270 *Pressure to Breach the Fundamental Principles*, to include illustrations of pressures on PAs (such as time and resourcing constraints; competence gaps; the complexity of technology, laws and regulations; the pace of change; uncertainty, etc.). In addition, consider revising the description of the intimidation threat (paragraph 120.6 A3) to acknowledge that objectivity is not the only fundamental principle that might be impacted by this threat. For example, feeling pressured or intimidated as a result of information overload or an exponential pace of change might threaten professional competence and due care. Finally, advocate to PAOs and other bodies, such as IFAC's IPAE, the development of additional non-authoritative resources to raise awareness of, and provide guidance on, how PAs can manage sustained pressures.	***Technology-related revisions to the IESBA Code*** Section 270 was not revised as suggested. However, revisions in other sections of the Code recognise such pressures on PAs and how to manage them: • With respect to pressure on "competence gaps", new paragraph 113.1 A2 recognises that the professional knowledge and skills needed to perform a professional activity competently will vary depending on the nature of the activity. The revised 113.1 A3 further states that maintaining professional competence requires a PA to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the professional activities undertaken. The revisions highlight that a PA should achieve a level of understanding "relevant to activities undertaken by the PA." (refer to paragraph 21 of *IESBA's Basis for Conclusions for Technology revisions*). • With respect to managing "complexity", new paragraphs 120.5 A6, 120.5 A7 & 120.5 A8 (for PAs in Business) and 200.6 A2 & 200.7 A4 (for PAs in Public Practice) highlight complexity as a factor to consider when exercising professional judgement, including guidance on how to manage complexity. The application materials on managing complexity are applicable to all circumstances, not just restricted to technology. The IESBA did not revise the description of the intimidation threat (in extant paragraph 120.6 A3) but it has incorporated other threats associated with the use of technology, rather than intimidation threat. • The new paragraphs 300.6 A2 & 300.7 A6 recognise that self-interest threats might include the PAs not having sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology when undertaking a professional activity. ***IESBA Strategy and Work Plan 2024-2027*** The IESBA Strategy and Work Plan 2024-2027 (SWP) includes a new work stream on the "Role of CFOs and Other Senior PAIBs" (refer to page 38) to: • Gather information on the evolving roles of CFOs and Other Senior PAIBs to identify and understand the relevant ethics issues and challenges.	Yes. Technical Staff note that relevant non-authoritative material has been issued by the IESBA. There is an ongoing responsibility for both APESB and IESBA to actively engage with PAOs and other bodies and raise awareness of ethics and promote the adoption of the Code.

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		• Consider whether Parts 1 and 2 of the Code need further enhancement to support Senior PAIBs. The reason for this work stream is in response to significant trends, including increase in regulatory and compliance requirements, which in turn have increased uncertainty and complexity in decision-making. New technology has also created both new challenges and opportunities for CFOs and the finance function. ***Non-authoritative material*** Relevant non-authoritative material that highlights such pressure on PAs includes: • [Ethical Leadership in a Digital Era: Applying the IESBA Code to Selected Technology-related Scenarios](#) outlines two hypothetical scenarios to assist PAs navigate issues in dealing with "pressure" when using or implementing technology (as illustrated in scenario B and G). • [Public Interest Accountability of Professional Accountants](#) stresses the importance for PAs to have the moral courage to speak up when there is "pressure" to breach the fundamental principles in the context of developing, implementing, or using emerging technologies.	
Business Relationships			
I.	Given the rise in strategic and commercial relationships between accounting firms and technology and other companies, consider <u>revising Part 3 of the Code</u> to consider the ethics implications of business relationships, in addition to <u>revising Section 520 *Business Relationships*</u> more comprehensively to address potential threats to the fundamental principles and, where relevant, independence, in the context of broader business relationships and new forms of relationships that are emerging.	***IESBA Strategy and Work Plan 2024-2027*** The [IESBA Strategy and Work Plan 2024-2027](#) (SWP) includes two new work streams on "Business Relationships" and "Audit Firm – Audit Client Relationship" (refer to Para. 107-114). Under the "Business Relationships" work stream, the IESBA will: • Review the different types of relationships that firms, network firms and audit team members might have with audit clients and their management and consider whether Section 520 sufficiently addresses the independence issues that may arise from these relationships. • Consider whether materiality and significance should be retained as criteria for exceptions to certain business relationships as well as loans and guarantee arrangements under Section 511 of the Code. • Consider whether the provisions in Parts 1 and 3 of the Code remain relevant in addressing the ethics implications of business relationships.	No. Given the inclusion of these topics in the IESBA's SWP, no action by APESB is considered necessary at this stage.

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		With respect to "Audit Firm – Audit Client Relationship" work stream, the IESBA will consider: • Whether it continues to remain appropriate to use the term "Audit Client" in International Independence Standards (IIS) as opposed to the "Audited Entity" or the "Entity Subject to Audit." • Examine more broadly the "Audit Firm-Audit Client" relationship and explore whether the Code in its entirety continues to provide a framework that addresses the ethical impact arising from such client relationship.	
Broader Implications on IESBA's Work			
J.	Continue initiatives to advocate the importance and relevance of Code, as well as to develop, facilitate the development of, and/or contribute to <u>non-authoritative resources and materials</u>. Appendix II of this report summarizes the pertinent technology-related topics that would particularly benefit from additional non-authoritative guidance to draw out potential ethics issues that might arise and how the Code applies in such scenarios.	(Refer to the comments in item number G above). ***IESBA Strategy and Work Plan 2024-2027*** One strategic theme in IESBA Approved Strategy and Work Plan 2024-2027 (SWP) involves "Widening the Influence of the IESBA's Standards Through a Continued Focus on Adoption and Implementation". Technical Staff note the IESBA's proposed strategic actions under this theme (refer to Para. 64) relevant to addressing this recommendation include: • Engaging in outreach around the world to raise awareness of the importance of ethics, and to promote further adoption of the Code. • Collaborating with IFAC to promote the importance of global consistency of standards across jurisdictions. • Working with IFAC and other stakeholders to encourage more support for IESBA's standards and publications. • Developing or facilitating the development of non-authoritative materials to support the adoption and effective implementation of standards.	Yes. The IESBA have issued relevant non-authoritative material, but the APESB and IESBA should continue to actively engage with other bodies and to continually raise awareness of ethics and promote the adoption of the Code.