

# Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

20 June 2022

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Dear Ken

## Submission on IESBA's Exposure Draft (ED) Proposed Technology-Related Revisions to the Code

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 870,000 current and next generation accounting professionals across 179 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

We welcome the opportunity to comment on the IESBA's ED Proposed Technology-Related Revisions to the Code of Ethics for Professional Accountants (including Independence Standards) ("**the Code**") ("**the ED**").

### General Comments

We are generally supportive of the proposed revisions for technology-related services in the Code. We support a principles-based Code that has broad applicability to the accounting profession

We note that the ED focuses on the potential threats from the use of technology. While we recognise that the use of technology can pose threats, we would also encourage consideration of the opportunities that technology can bring, for example in aiding professional judgement and enhancing compliance with the fundamental principles, and hence the potential threats that could arise from not using technology in certain circumstances.

We note that the proposed changes at paragraphs 113.1A1 regarding skills and 120.13 A1 to A3 regarding complexity, may not be seen by users of the Code as technology related revisions to the Code. We recommend that the IESBA highlight these proposed general changes to the Code in the Basis for Conclusions so that users are made aware that the proposed changes are not exclusively related to technology.



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Our responses to the specific questions for comment raised in the ED follow in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact via email; Josephine Haste CA, [josephine.haste@charteredaccountantsanz.com](mailto:josephine.haste@charteredaccountantsanz.com) and Antonis Diolas FCCA, [antonis.diolas@accaglobal.com](mailto:antonis.diolas@accaglobal.com)

Yours sincerely

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# Submission on IESBA's ED Proposed Technology-related Revisions to the Code

## Appendix A

### Request for Specific Comments

- 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?**

We support the new application material in proposed paragraphs 200.6 A2 and 300.6 A2 to assist in identifying threats to compliance with the fundamental principles when a professional accountant (**PA**) uses or relies upon the output from technology. The guidance in Sections 200 and 300 raises the visibility of technology-related considerations within the Code and the thought process to be undertaken appears comprehensive.

We agree that technology is an enabler rather than a threat in its own right. Technology provides delivery tools which help PAs improve efficiency and the quality of outputs. Therefore, the issue is about how technology is applied and the outputs it generates. It is the outputs of technology rather than the use of technology which has the potential to create threats. Ultimately, accountability for the service provided (by use of technology or otherwise) rests with the PA rather than the technology utilised.

In our view, the fundamental principles are sufficiently robust to cater for the ethical challenges posed by the use of technology and the current categories of threats contained in the Code could each apply to the use of technology. Therefore, we support the proposals which set out the thought process to be undertaken when considering the use of technology and the threats it might create.

### ***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?**

We support the proposed revisions to these sections of the Code, including the examples of factors for Professional Accountants in Business (PAIBs) and Professional Accountants in Public Practice (PAPPs) to consider in determining whether reliance on, or use of, the output of technology is reasonable, however we suggest factors be included which highlight the risks of not using technology.

When applying the factors listed at proposed paragraphs 220.7 A2 and 320.10 A2, it is likely that considerable subjectivity and inconsistency may prevail. It would be useful for non-authoritative material to be developed which further explains the expectations of the PA when making subjective assessments about the outputs of technology for which they do not have sufficient expertise.

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We question the relevance of the proposed application material specifically for PAIBs in paragraph 220.7 A3. If the proposed application material is considered relevant for PAIBs, then we question why similar application material has not been included for PAPPs. The PAs position in any organisation (whether in business or public practice) may impact their ability to obtain necessary information in relation to the factors they should consider.

### ***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?**

We support the proposed application material relating to complex circumstances in proposed paragraphs 120.13 A1 to A3. PAs are increasingly working in complex circumstances brought about by a range of factors, including the impact of new technologies. We welcome the inclusion of the consideration of ‘complex circumstances’ when applying the conceptual framework and agree with the IESBA’s determination that the existence of complex circumstances should not be treated as a new category of threat. It is not clear however, how these considerations apply in the context of technology.

There are mechanisms other than technology, available to the PA for analysing relevant data to better inform the accountant’s judgement. We suggest the following phrasing of bullet point 2 in 120.13 A3 [new text underlined].

Using technology and other tools to analyze relevant data to better inform the accountant’s judgement

#### **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?**

We are not aware of any other considerations that may impact the proposed revisions. However, we believe there is the potential for jurisdiction-specific translation issues in relation to the term ‘complex’. In our opinion, the term ‘complex’ is relevant to circumstances that are both closely linked and complicated. The terms ‘complex’ and ‘complicated’ are distinct terms and should not be regarded as interchangeable for the purposes of translating the Code.

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## *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?**

We support the proposed revisions to paragraph 113.1 A1 and R113.3 which include soft skills required by the PA when exhibiting professional competencies. Interpersonal, communication and organisational skills are vital in undertaking all professional activities and these soft skills are critical for the PA.

We note, however, that soft skills such as interpersonal, communication and organisational skills are skills not uniquely attributable to the 'digital age'. The IESBA may wish to consider skills which are required for future-ready PAs in the digital age such as innovative thought leadership, adaptability, initiative, responsiveness, change management, managing technological disruption and rapidly evolving work practices.

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?**

We agree with the IESBA's decision not to include an explicit reference to International Education Standards (IESs) or equivalent education standards, as this is consistent with the approach taken towards referencing other standards of professional competence within the Code. We support a footnote or reference in application material which reminds the PA to familiarise themselves with competency requirements.

## *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?"**

We support proposed paragraphs 114.1 A1 and 114.1 A3 which address the maintenance of confidential information acquired in the course of professional and business relationships. We highlight that local laws and regulations often define confidential information and prescribe requirements for the collection and storing of confidential and personal information.

In terms of the proposed definition of "confidential information" We suggest the following addition [new text underlined]:

"Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not legitimately in the public domain."

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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 sub-paragraph 36(c) of the explanatory memorandum)?

We agree that the concept of “privacy” is addressed by national laws and regulations and that these national laws and regulations apply to PAs working in practice and in business. We therefore agree that “privacy” should not be explicitly included as a requirement to be observed by PAs in the proposed definition of “confidential information”.

### *Independence (Parts 4A and 4B)*

9. Do you support the proposed revisions to the International Independence Standards, including: The proposed revisions in paragraphs 400.16 A1, 601.5 A2 and A3 relating to “routine or mechanical” services. (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. (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).

We are generally supportive of the technology-related proposals in respect of audit and review engagements in the International Independence Standards (IIS) to clarify and refine the revised Non-Assurance Services (NAS) provisions that were issued in April 2021. However, we have identified some areas of concern, and these are highlighted in our responses, where appropriate.

We support proposed paragraphs 400.16 A1, 601.5 A2 and A3 as they provide clarity for services that are “routine or mechanical”. What constitutes a routine or mechanical service, and where the boundaries are for a routine and mechanical service, has created confusion for PAs and resulted in the incorrect application the Code.

In paragraph 601.5 A3 we suggest including a cross-reference to proposed paragraph 400.16 A1 in addition to paragraph R400.16. This additional cross-reference will provide further clarity when considering manual or automated services.

We support the additional proposed examples to clarify the technology-related arrangements in paragraph 520.3 A2 that constitute a close business relationship. Extending distribution to include selling, reselling, developing and licencing products or solutions clarifies the inclusion of technology-related arrangements.

We believe the Code should provide high level, principles-based guidance on ethical issues. The inclusion of detailed examples (as provided at paragraphs 40-42 of the Explanatory Memorandum) of such technology-related arrangements would add further complexity which we believe would be unwelcome and unnecessary.

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We support the proposed application material at paragraph 520.7 A1 which reminds PAs that providing, selling, reselling or licencing technology to an audit client will require the PA to apply the NAS provisions contained in Section 600. However, it is not clear how the inclusion of proposed paragraph 600.6 (a) around the use of technology should be applied when considering the NAS provisions.

### 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)?**

We agree that hosting an audit client's data or supporting an audit client's network security, business continuity and disaster recovery processes may result in the assumption of management responsibility. However, proposed paragraph 606.3 A1 does not recognise or address that data is increasingly being stored in cloud-based applications which are not hosted by the audit client.

We suggest it would be helpful to define the term 'hosting'; determine what constitutes the 'data provided by an audit client'; and differentiate types of audit client data provided, for example, client data which results in the assumption of a management responsibility and data which enables the provision of a permissible service.

We support paragraph 606.3 A2 which clarifies the position that collecting, receiving or retaining data provided by an audit client for a permissible service does not result in the 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?**

We support the withdrawal of the presumption in extant subparagraph 606.4 A2 (c) which suggests that implementing "off the shelf" accounting or financial information reporting software where customisation was not required, did not usually create a self-review threat. It is likely that modifications, regardless of how minor, will be required and it is prudent for the PA to turn their mind to whether this may create a threat. When considering self-review threats that may impact the actual or perceived independence of the auditor, we support the removal of any assumption regarding whether the threat exists.



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

The examples of IT system services that might create a self-review threat are broad and may encompass systems or activities which do not interact with financial data subject to audit. As proposed paragraph 606.4 A3 is application material, we are not strongly opposed to its inclusion, however we recommend that the IESBA develop additional guidance or non-authoritative material to further demonstrate the intended extent of the paragraph.

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

We support the proposed changes to Part 4B to preserve alignment with changes proposed to Part 4A of the Code. Environmental, Social and Governance (ESG) disclosures are increasingly important to consider in the context of the Code. We recommend that the IESBA conduct a review of Parts 4A and 4B of the Code to consider the appropriateness of requirements and application material as it applies to non-financial reporting.

### Request for General Comments

- **Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)**

SMEs and SMPs are important stakeholders in developing and enhancing the Code. It is within such organisations (with more limited resources, including fewer personnel) where changes in behaviours and mindset are best supported through clear guidance which is proportionate and scalable. The implementation of new technology-related provisions is unlikely to entail significant changes to policies and procedures for most firms. However, the burden on SMEs/SMPs could be disproportionately high, particularly in jurisdictions where PIEs may be small, and the proposed changes to the applicability of some of the NAS provisions may be too costly and impractical for some smaller firms and businesses. This is due to inherent limitations of available resources such as expertise available within the firm or capital available to engage experts. The development of the IIS should command public trust, but the standards also need to allow for efficiency and choice.

Following our recommendation raised in our response to Question 1 above, it would be useful for non-authoritative material to be developed which further explains the expectations of the PA when making subjective assessments about the outputs of technology for which they do not have sufficient expertise, when applying the factors listed at proposed paragraphs 220.7 A2 and 320.10 A2. This would be particularly helpful for SMPs.



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- **Regulators and Audit Oversight Bodies**

Any refinements to the Code by Regulators and Audit Oversight Bodies must focus on the desired outcomes, and the behavioural changes that will be perceived by the public, rather than simply whether the local Code's requirements are comprehensive. Therefore, the drafting of local Codes must be clear, and they must be drafted with due regard to enforceability. Regulators and Audit Oversight Bodies in some parts of the world, in particular in developing nations, may lack the appetite, capacity and ability to refine the Code specific to their jurisdiction. The implementation of the new technology-related provisions may present practical challenges for local relevant bodies, and they may require proactive engagement and support to deliver these changes.

- **Developing Nations**

Member bodies in different parts of the world operate within a range of cultural environments. While ethical values should not be regarded as relative to location or culture, clarity and sensitivity are important with regard to developing the Code. We believe the Code should remain principles-based and provide a clear framework, while allowing the flexibility for tailored implementation guidance by national standard setters and/or professional bodies. The provisions need to provide practical and effective guidance in respect of technology in order to aid consistency of understanding, interpretation and application across all the IFAC member organisations, in particular on the applicability of NAS provisions for services in relation to the hosting of an audit client's data.

- **Translations**

Translation of the Code for adoption in various environments is a challenging process for translators. Changes inevitably create inefficiencies and place additional demands on translation resources which could threaten accurate translation of the Code and compliance. In our opinion, the proposals should be clear, consistent and logical, and a realistic translation period is required. Although, as drafted, the proposed revisions would be unlikely to present translation issues as they use generally understood phrases rather than specific terms, we have highlighted one term 'complex' which may create issues with translation of the term. The Board should remain alert to this when proposing changes to the Code.

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## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

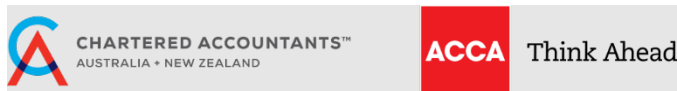
Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.



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## About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 233,000 members and 536,000 future members based in 178 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that support both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions preparing us for tomorrow.

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