

**TO: CHAIR, IESBA**

**FROM: IFAC SMP ADVISORY GROUP**

**DATE: June 20, 2022**

**RE: IFAC Small and Medium Practices Advisory Group Response to IESBAs Proposed Technology-Related Revisions to the Code**

## **INTRODUCTION**

The SMP Advisory Group (SMPAG) is pleased to respond to the IESBA Exposure Draft *Proposed Technology-Related Revisions to the Code* (ED). The SMPAG is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small- and medium-sized entities (SMEs). The constituents of the SMPAG are small- and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs. Members and Technical Advisers serving the SMPAG are drawn from IFAC member bodies representing 22 countries from all regions of the world.

## **GENERAL COMMENTS**

Overall, the SMPAG is generally supportive of these technology-related enhancements to the Code and believe they provide some additional guidance as technologies continue to evolve and change the way professional accountants (PAs) work. However, we have concerns relating to overall responsibility and who should be required to determine suitability of specific technologies that are selected. We also have some concerns on how this might apply to IT teams who work with PAs in business. We also have concerns about any unintentional documentation requirements that these changes might introduce, as well as how to evaluate vendors/providers versus assessing the technology itself and how this would be applied in practice. We also questioned the addition of item b in 113.1 A1 related to the application of interpersonal, communication, and organizational skills. We debated whether communication skills are critical if the individual is technically competent, and the lack of these skills should not necessarily create an ethical violation. These concerns are explained in further detail in the responses to each question below.

## **DETAILED COMMENTS**

We have outlined our responses to each question (*in italics*) in the ED below.

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?*

The SMPAG questioned whether these proposed paragraphs would apply to IT teams who work with PAs in business. If so, we are unsure as to whether those working in business would be able to implement these changes in practice. For example, for PAs in industry, how would they document that the proposed items in 200.6 A2 are being done as this does not seem practical when PAs may not hold leadership roles in their organization. It also raises the question of how could anyone prove that a PA created a threat to compliance

if they leave the organization and there was a future breach that arose after they were gone? There may also be times when there are conflicts in documenting personal ethical duties and violating confidential information clauses of employment agreements.

In addition, expectations for sole practitioners and small practices might be challenging when it comes to documentation requirements due to their more limited resources.

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?*

Related to 220.7 A2, we believe the emphasis should be about assessing the vendors and having them provide sufficient information for PAs to have oversight of the tools/products that they may be offering rather than putting all of the responsibility on the PA. Perhaps practical examples or additional implementation guidance could be developed to further explain what an accountant would do in order to consider the list of factors noted in 220.7 A2.

We are concerned with the proposed change to R320.10, which reads:

“When a professional accountant intends to use the work of an expert or the output of technology in the course of undertaking a professional activity, the accountant shall determine whether the use is appropriate for the intended purpose.”

This requirement of determining whether a particular technology is appropriate for the intended purpose can have practical implications that the Board should further consider. For example, new product offerings might be challenging for PAs to evaluate whether they are appropriate for the intended purpose, especially for SMPs. We also struggled with how to differentiate between evaluating use of an expert versus evaluating output of the technology that the expert is providing. This is an area where additional guidance and examples might be helpful.

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

The SMPAG questioned whether the proposed additional material in 120.13 A1 to A3 was necessary as this information would likely not change how PAs navigate the threats and safeguards approach. We are concerned that adding this additional material may introduce additional documentation requirements. We are also unsure about the definition of complex circumstances as it relies heavily on judgment. Perhaps the Board could provide additional examples or further refine the definition. We were also curious whether 120.13 A3 is more of a conditional requirement rather than application guidance.

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?*

Translations are always a key consideration, especially in jurisdictions where the Professional Accountancy Organizations are resource constrained. Some members noted that use of the terms complicated versus complex might be challenging when translating to certain languages, but the SMPAG could not identify any specific issues with translations that would be unique to this ED.

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?*

The SMPAG had some discussions about the addition of item b in 113.1 A1 related to the application of interpersonal, communication, and organizational skills. We debated whether communication skills are critical if the individual is technically competent, and the lack of these skills should not necessarily create an ethical violation. For example, there are some very competent, intelligent individuals that may be neurodiverse; for example, those on the autism spectrum who may demonstrate issues with social communication and interaction. We propose removing this bullet as we believe it may discriminate against individuals with disabilities who otherwise possess professional competence. We also believe that this skill would be very challenging to review for compliance. Overall, the SMPAG did not believe these qualities would be unique to those dealing with technology and since they are not noted in other sections of the Code, we believe the Board should consider removing to avoid any confusion. We also did not think the additional language proposed in R113.3 adds any value and suggest removal.

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 not including any additional new application material that would make an explicit reference to standards of professional competence such as the IESs.

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”?*

Proposed 114.1 A1 discusses maintaining confidentiality, but perhaps instead the focus should be on steps the accountant should consider in order to protect client confidentiality throughout their professional and business relationship.

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)?*

Yes, we agree that “privacy” should not explicitly be included as a requirement since this is already addressed by national laws and regulations.

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. (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).*

The SMPAG questioned whether some of these provisions would apply to sustainability/ ESG assurance or whether they may need to be updated to reflect these services. We were also curious whether additional safeguards could be put in place to overcome the self-review threats as noted in 606.6.

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

The SMPAG suggests moving 606.3 A2 to a requirement rather than application material as it sets the stage for the proposed guidance in 606.3 A1. It is a negative requirement so it should carry the same authority as other requirements. We also would ask the Board to consider adding "transmission" to the list of permissible flows of data in 606.3 A2 recognizing the use of portals that has become more and more common in practice.

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

Yes, we support the proposed changes to Part 4B of the Code.

### **CONCLUDING COMMENTS**

The SMPAG appreciates the opportunity to review these proposed changes to the Code and would be happy to discuss any of these issues further with the Board.

Sincerely,



Monica Foerster

Chair, IFAC SMP Advisory Group