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20 June 2022

Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
The United States of America

Dear Sir,

IESBA Exposure Draft
Proposed Technology-related Revisions to the Code

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorized by law to set and promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Exposure Draft (ED).

The HKICPA appreciates the IESBA’s time and effort in organizing a global webinar on the ED and explaining the changes.

Overall, we support the IESBA’s proposed technology-related revisions in order for the Code to remain relevant and fit for purpose in response to the major trends and developments in technology on the work of the global accountancy profession. We find the proposed guidance in the ED useful to support professional accountants’ (PAs) performance of professional activities amidst the increasing risks and challenges to compliance with the fundamental principles, such as inclusion of factors and examples to “routine or mechanical” services”, “close business relationship” etc. Meanwhile, we suggest enhancement or clarification to some of the proposed materials, such as description to “complex circumstances”, to avoid inconsistency in interpretation and practice.

However, we are conscious that the proposed 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, might be difficult to apply especially among inexperienced PAs and PAs without sufficient IT competency. Also, PAs might find it difficult to substantiate their thought process in hindsight when subsequently challenged by regulators, who might assess prior incidents or decisions by PAs using the latest understanding in technology. Accordingly, we recommend the IESBA to provide further guidance, such as how to document PAs’ judgement on their use of or reliance on the output of technology objectivity particularly in hindsight.
Our responses to the specific questions raised in the ED are set out in the Appendix for your consideration. We trust that our comments are of assistance to you. If you require any clarifications on our comments, please contact Selene Ho, Deputy Director of the Standard Setting Department (selene@hkicpa.org.hk).

Yours faithfully,

Jonathan Ng
Deputy Chief Executive
Work undertaken by HKICPA in forming its views

The HKICPA:

a) issued an Invitation to Comment on the ED on 22 February 2022 to members of HKICPA and all other interested parties;
b) invited all HKICPA members to participate in a survey on the attributes of the ED;
c) developed its views through its Ethics Committee, having reflected on feedback obtained from stakeholders. The Committee comprises of regulators and practitioners from small, medium and large accounting firms.

This comment letter outlines the HKICPA’s views and summarizes our stakeholders’ primary comments to the ED.

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?

Our stakeholders generally agreed that a thought process as such should be undertaken. Given the prevalence of technology in PAs’ work and it is often an extension of the limbs of the PAs, it is reasonable for PAs to consider the proposed principles prior to/when using the relevant technology to understand the associated risks and impact. We also consider factors covered by the thought process are of a principle-based manner which would preserve the relevance of the Code as technology evolves.

However, some of our stakeholders expressed concerns that PAs in general may not possess the necessary IT knowledge to assess factors in the proposed thought process especially in view of the wide range of technological products and the evolving speed of IT development. The proposal might also be challenging for PAs in business (PAIBs) who often use software and tools procured by the employing organization without involving PAIBs in the product selection and might not be fully knowledgeable of the product. While proposed paragraph 220.7 A3 acknowledges that a PAIB’s position in an employing organization impacts the PAIB’s ability to obtain information in relation to the factors required, we recommend the IESBA to supplement the application guidance with practical illustrations to the circumstances of junior PAIBs and senior PAIBs respectively. Likewise, we encourage the IESBA to provide application guidance to the thought process when considering the use of technology by different levels and capacity of PAs in public practice (PAPPs), for instance, junior/ senior PAPPs; PAPPs providing auditing/non-assurance services. It would also be helpful for the IESBA to illustrate the application of the thought process in common and emerging technology, such as cloud applications.
Should the proposal be finalized as drafted, regulators might follow the revisions for compliance purposes and expect PAs to demonstrate their thought process following proposed paragraphs 200.6 A2 and 300.6 A2. However, the proposed considerations are general and broad, which might be difficult to apply in practice especially by inexperienced PAs or those who do not process sufficient IT competency. Moreover, PAs’ assessment and relevant documentation would only be examined subsequently when the relevant technologies have evolved, i.e. regulators might apply the latest understanding to assess prior incidents associated with or decisions made by PAs, making it difficult for PAs to substantiate their thought process in hindsight when challenged by regulators. Accordingly, we recommend the Code to provide guidance on how to document PAs’ judgement on their use of or reliance on the output of technology in an objective manner particularly in hindsight.

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 consider the proposed factors in paragraphs 220.7 A2 and 320.10 A2 are relevant for PAs to make decisions when relying on or using the output of technology. They help PAs to assess whether they understand the output concerned so as to avoid inappropriate use of the results produced. However, most if not all of the proposed factors relate to the IT governance of the PA’s employing organization, an area where the PA might not have control or assume governance responsibility over. Accordingly, we suggest the IESBA to differentiate factors for consideration by PAs in general, and PAs charged with IT governance.

Also, we find some of the proposed factors too general and might be difficult to apply in practice, such as “The reputation of the developer of the technology if acquired from or developed by an external vendor”. We suggest the IESBA to re-fine the drafting, for example, PAs should consider the capability and track record of the external vendor in a way similar to assessing the competence, capabilities, etc. of an auditor’s expert under International Auditing Standard 620 Using the Work of an Auditor’s Expert.

We also recommend the IESBA to consider incorporating factors relating to data security such as an established information system contingency plan to address risk of data loss or data damage due to hacker or virus; established policies or procedures pertaining to the use of personal information, etc.
**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 agree with proposed paragraphs 120.13 A1 and 120.13 A3 which draw PAs’ attention to challenges to compliance with the fundamental principles in complex circumstances and how to mitigate those challenges. However, we have concerns on the description of “complex circumstances” in proposed paragraph 120.13 A2.

As explained by the IESBA in paragraph 24 of the explanatory memorandum, complex circumstances have always existed and are not a new phenomenon specific to technology, hence proposed paragraphs 120.13 A1 to A3 are not restrictive to technology-specific situations.

Determining whether a situation is “complex” requires significant judgement with reference to facts and circumstances concerned. Other characteristics, in addition to those described in proposed 120.13 A2, might include the number of personnel or jurisdictions involved in the matter; the PA’s prior experience with similar circumstances; rapidly changing facts and circumstances, etc. It is difficult, if not impossible, to provide a catchall description of “complex circumstances” for the purposes of the Code. Accordingly, we are conscious that the proposed characteristics in 120.13 A2 might mislead PAs that they are inclusive of all complex circumstances.

Should a description on “complex circumstances” be included in the Code, we propose the IESBA to re-consider the drafting to reflect that characteristics described are not inclusive; a PA should apply professional judgement to determine whether a circumstance is complex based on the specific facts.

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 do not have any comments to this question.
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 agree that PAs should act professionally under all circumstances and not to discredit the profession. This includes, among others, demonstrating the soft skills discussed in proposed paragraph 113.1 A1 (b) as and when necessary. In the extant Code, the expectation for PAs to equip with such skills is implicated in the fundamental principle of professional competence and due care, which requires PAs to:

(a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and

(b) Act diligently and in accordance with applicable technical and professional standards.

In relation to proposed paragraph 113.1 A1 (b), we note that significant judgement is required on what constitutes “interpersonal, communication and organizational skills”; whether a PA is equipped with and has applied such skills appropriately. Meanwhile, the extent and nature of “soft skills” that each PA should process would be different subject to, for example, their roles (PAIBs or PAPPs) and capacity (junior PAs or senior PAs). Incorporating specific soft skills in the Code without providing relevant definition and concrete examples would result in inconsistency in interpretation and practice among PAs, regulators and stakeholders. It would also create uncertainty on what the Code expects PAs to be. Accordingly, we recommend the IESBA to re-assess the drafting to avoid the pitfalls described above.

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 approach not to include additional new application material making explicit reference to standards of professional competence.

We note that the extant Code includes an implicit obligation for PAs to identify the relevant applicable professional competence standards and resources in order to comply with the requirement in paragraph R113.1. Given the global nature of the Code, it is not possible for the IESBA to identify all relevant standards and include them for PAs’ attention. To avoid confusion, we recommend the IESBA not to include any such references but leave it for PAs’ identification or local standard setters to supplement if necessary.
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”?

It is helpful to develop a definition on “confidential information” to assist PAs to determine information that is confidential and require special consideration.

In light of the variety and wide range of information sources/types, we agree that any definition to “confidential information” needs to be broad in order to be effective. However, we struggle with the concept of “public domain” in the proposed definition, which is commonly used in the era of intellectual property referring to something that can be used by anyone and is not protected by copyright. As “public domain” is a relatively new concept, we urge the IESBA to explain its meaning from the Code’s perspective with examples on types/sources of information that are in public domain and not in public domain. For example, whether an email address on a business card obtained during a business liaison/social activity is a “confidential information” if it cannot be found via search engines online.

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 “privacy” should not be explicitly included as a requirement to be observed by PAs in the Code because it is already addressed by national laws and regulations with varying interpretations among jurisdictions. Nonetheless, it would be helpful if the Code could include general principles to “privacy” applicable to PAs, while emphasizing that those principles are subject to relevant laws and regulations. This would provide guidance to and ease the pressure on PAs when confronted with relevant circumstances, and to assist PAs in jurisdictions without statutory requirements pertaining to privacy.

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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.

We support the proposed revisions which clarify factors to consider in determining whether an automated accounting or bookkeeping service is “routine or mechanical”.

For the purposes of proposed paragraph 601.5 A2, we suggest further factors be given to assist PAs’ consideration, for example, types of information, data or material referred to in paragraph 601.5 A1(a) and the extent that they are automatically generated or input manually.

(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.

We support the inclusion of the proposed examples to drive consistency in practice.

Since it is not possible for the IESBA to capture all examples of a “close business relationship” from an ethics perspective, we urge the IESBA to consider developing a general principle to assist PAs’ assessment and application in practice.

(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 agreed with the proposed revisions. Given the continual prevalence of technology-related activities or services, it is important that the non-assurance services (NAS) provisions are properly considered in a PAs’ course of professional activities.
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 support the proposed prohibitions in paragraph 606.3 A1.

We note that proposed paragraph 606.3 A2 provides elaboration that the hosting of an audit client’s data is a provision of service. For ease of understanding, we suggest re-locating proposed paragraph 606.3 A2 before 606.3 A1.

(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 notice that under the extant Code, firms are prohibited to provide services that would affect the audit of the financial statements on which the firm would express an opinion to PIE audit clients, whereas in the case of non-PIE audit clients, firms would need to apply the conceptual framework to address the self-review threat that might be created.

Some of our stakeholders agree with the IESBA’s proposed withdrawal of the presumption in extant subparagraph 606.4 A2(c) because any implementation support could be seen as involving management responsibility. However, some stakeholders do not support the proposed withdrawal, considering that it is possible to address the risk by applying safeguards such as assigning different partners/teams for the provision of reporting software implementation and audit services, while the implementation of certain “off-the-shelf” reporting software package not developed by the firm requires little, if not none, judgement by PAs.

On balance, we agree with the proposed withdrawal of the presumption to clarify the prohibition of providing such services to PIE audit clients. Meanwhile, we understand that the proposed change would not alter the NAS requirements.

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

We agree with the other examples of IT systems services in proposed paragraph 606.4 A3. They are clear that the implementation of accounting or financial information reporting software might create a self-review. They also illustrate further circumstances that would give rise to a self-review threat which are helpful to assist PAs’ practical application of the requirement.
11. Do you support the proposed changes to Part 4B of the Code?

We agree with the proposed changes to Part 4B of the Code to cover non-financial reporting and revise certain application materials for alignment with the proposed changes in other sections of the Code. We note that the proposed changes would not change the requirements in Part 4B.