



International Organization of Securities Commissions
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15 June 2022

Technical Director
International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017 U.S.A.

Our Ref: 2022/O/C1/IESBA/MS/39

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

Dear Sir:

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants (the IESBA or the Board) Exposure Draft: *Proposed Technology-related Revisions to the Code* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.



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Overall Comments

General

Advancements in technology, including the pace at which those advancements are occurring, continue to impact the way business is conducted around the globe. Professional accountants, their roles, responsibilities and services they provide has been similarly impacted by this increased trend in the use of technology (e.g., financial reporting information in electronic formats).

The combination of the complexity and speed of technology and rate of advancements results in a challenge for the Board to remain flexible in how to be best responsive to the needs of the public interest. Ethical and independence considerations underpin the work of professional accountants, and we appreciate the efforts of the Board to have multiple technology-related work streams, including the development of this Paper.

Importance of non-authoritative material

While we support the on-going efforts to enhance the Code's robustness and expand its relevance in response to technological advancements, we strongly encourage the Board to continue to support and prioritize the objectives of the Technology Working Group. As we have stated previously¹, the ability of the Board to be able to issue practical application guidance based upon the existing provisions of the Code and upon the identification of key emerging issues will be critical in response to stakeholder needs and the rapid advancements in this space.

For example, there may be more challenges in evaluating a threat to independence created when a firm or network firm provides a technology-related non-assurance service prior to being engaged to serve as the auditor of the financial statements on which the firm will express an opinion. Should areas in the Code that address these circumstances be

¹ See IOSCO's C1 response to the IESBA's Consultation Paper: *Proposed Strategy and Work Plan, 2019-2023* dated 30 July 2018 at: https://www.iosco.org/library/comment_letters/pdf/IESBA-22.pdf



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emphasized, elevated to requirements (if not currently included therein) or supplemented with additional guidance?

We also believe that, during the course of developing application guidance, it is important that the Board recognizes that technology utilized by professional accountants ranges in complexity, and could include, for example, spreadsheet valuation models with lower complexity levels or technologies with higher complexity levels such as those that utilize machine learning or artificial intelligence. To ensure that all forms of technology are considered, the Board should continue to develop appropriate guidance that can be applied to an expanding list of technology issues and matters.

Collaboration with the International Auditing and Assurance Standards Board (IAASB) – On-going Projects and Terminology

We continue to encourage the Board to work with the IAASB to align on projects and the associated outcomes, where relevant.

One example where the Board can collaborate with the IAASB is on the consistency of terminology related to technology and the need for consistency for users of the Code and the International Standards on Auditing (ISAs). For example, we observe that the IAASB utilizes the term “automated tools and techniques” frequently as part of their ISA 500, *Audit Evidence* project that aims to modernize and support a principle-based standard that recognizes the evolution in technology. However, it does not appear that the same term is referenced in Part 3 of the Code applicable to Professional Accountants in Public Practice (PAPPs) as part of the proposed revisions included in this Paper.

Specific Comments related to the Proposed Revisions to the Code

Role of the employing organization in Part 2 of the Code

We believe that Professional Accountants in Business (PAIBs) would, in practice, rely upon their employing organization to satisfy certain requirements of the Code as it pertains to the use of technology. This, in our view, would be similar to how PAPPs adhere to the quality control systems in place at their respective firms.



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However, while the definition of a PAPPs refers to individual professional accountants in public practice and their firms, the definition of a PAIB does not include their employing organizations which would contemplate the entity-wide control systems that may be in place to accomplish ethical requirements around technology.

We also believe that this observation applies to the ability of an individual PAIB to comply with the requirements in Subsection 114 – Confidentiality², as the responsibility of complying with the principle of confidentiality may be shared across employees (including other PAIBs) in an employing organization.

We encourage the Board to consider how the internal control environment of the employing organization of a PAIB can be referenced in the Code to address these observations.

Finally, we encourage the Board to consider seeking input from small and medium-sized entities (SMEs) to understand whether, in addition to our observations above, there are other implementation challenges or unintended consequences, example, segregation of duties concerns, due to resource or cost constraints as a result of the proposed revisions to Part 2 of the Code.

Use of the term “accountant” in Part 3 of the Code

We observe that the term “accountant” is used in the proposed revisions to Parts 2 (200.6 A2 and 220.7 A3) and 3 (300.6 A2) of the Code, however, that term is not defined. We encourage the Board to consider whether references to “accountant” should be changed to “professional accountant”.

We have included the following excerpts for reference, bolding the use of the term “accountant”:

300.6 A2 The use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. Considerations that are relevant when

² While the focus of our comment is in respect of PAIBs, we encourage the Board to consider if similar restrictions may exist with PAPPs in small and medium-sized practices.



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identifying such threats when a professional accountant relies upon the output from technology include:

- Whether information about how the technology functions is available to the **accountant**.
- Whether the technology is appropriate for the purpose for which it is to be used.
- Whether the **accountant** has the professional competence to understand, use and explain the output from the technology.
- Whether the technology incorporates expertise or judgments of the firm.
- Whether the technology was designed or developed by the firm and therefore might create a self-interest or self-review threat.

Proposed revisions to the Code where clarifications may be warranted

In the following table, we highlight proposed revisions to the Code included in the Paper that the Board should consider enhancing to promote consistent interpretation by users and to strengthen the application guidance of the Code:

| <u>Paragraph of the Code</u> | <u>Our Commentary</u> |
|---|---|
| 113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and technology-related developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment. | We believe that the language in this paragraph may be interpreted to suggest that only a ‘high-level’ understanding of relevant technical, professional, business, and technology-related developments is needed in order to maintain professional competence. While we believe this is not the intent of the Board, it would be useful for this paragraph to clarify that the level of understanding required of the professional accountant should be commensurate with the nature of their roles and responsibilities. |
| 114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the professional accountant taking appropriate action to secure such information in the course of its collection, | We believe that the term “secure” used in this paragraph can be broadly interpreted, and therefore, we suggest that the Board consider clarifying the expectations of a professional accountant when maintaining the confidentiality of information. |



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| <p>use, transfer, storage, dissemination and lawful destruction.</p> | |
| <p>120.13 A2 Complex circumstances arise where the relevant facts and circumstances involve:</p> <p>(a) Elements that are uncertain; and</p> <p>(b) Multiple variables and assumptions, which are interconnected or interdependent. Such facts and circumstances might also be rapidly changing.</p> | <p>We believe that the Board should consider revising 120.13 A2 as follows as there may be complex circumstances only arising from the considerations in either 120.13 A2 (a) or 120.13 A2 (b) (bolded, underlined italics are ours):</p> <p>(a) Elements that are uncertain; and <u><i>or</i></u></p> <p>In addition, we believe that the Board should consider, as part of this application guidance, clarifying that circumstances may not rise to the level of “complex” even if they involve both elements that are uncertain, and multiple variables and assumptions. For example, a circumstance may involve uncertainties and multiple variables and assumptions that are not deemed to be significant to the overall circumstance itself that the professional accountant is carrying out.</p> |
| <p>320.10 A2 Factors to consider when a professional accountant intends to use the output of technology include:</p> <ul style="list-style-type: none"> • The nature of the activity to be performed by the technology. • The expected use of, or extent of reliance on, the output from the technology. • The professional accountant’s ability to understand the output from the technology for the context in which it is to be used. • Whether the technology is established and effective for the purpose intended. | <p>We believe that the factor “The firm’s oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology” should include specific reference to user access of the system (e.g., oversight and authorization of the roles that users are assigned) given the importance to the overall governance of the technology.</p> |



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| <ul style="list-style-type: none"> • Whether the new technology has been appropriately tested and evaluated for the purpose intended. • The reputation of the developer of the technology if acquired from or developed by an external vendor. • The firm’s oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology. • The appropriateness of the inputs to the technology, including data and any related decisions. | |
| <p>600.9 A2³ Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats include:</p> <ul style="list-style-type: none"> • The client’s dependency on the service, including the frequency with which the service will be provided <p>(Only the proposed bulleted revision to 600.9 A2 has been included as an excerpt above)</p> | <p>While we believe it is the Board’s intent that the entire list provided in 600.9 A2 (revised), among others, are relevant in identifying and evaluating the level of different threats, we encourage the Board to enhance the application material to guide a professional accountant to consider the factors together when identifying and evaluating different threats. We make this observation since each item listed, for example the proposed “frequency with which the service will be provided” per 600.9 A2, may be insufficient in itself.</p> |
| <p>R606.6³ A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the provision of such services might create a</p> | <p>We believe that this paragraph can be strengthened to also include IT system services where a firm or network firm assumes a management responsibility (e.g.,</p> |

³ For clarity, this reference in the Code is in the “II. Revisions to the non-assurance services provisions of the Code (Issued April 2021)” section of the “2021 Handbook of the International Code of Ethics for Professional Accountants” dated October 21, 2021



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| self-review threat (Ref: Para. R600.14 and R600.16) | appropriate linkage to R606.3 and the related application material) |
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Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact Nigel James at ph. + (202) 551 - 5394 (email: JamesN@sec.gov) or myself. In case of any written correspondence, please mark a copy to me.

Sincerely,

Makoto Sonoda
Chair, Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions