

# Technology

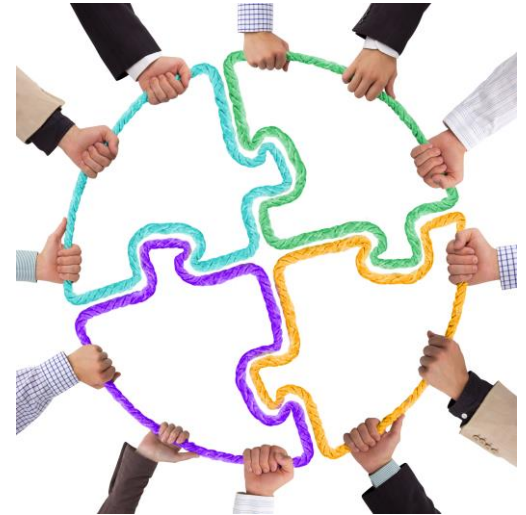
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NZAuASB Meeting

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# Background

- TWG's [Phase 1 Final Report](#) tabled Dec 2019
- [Project plan](#) approved March 2020
- Recommendations broadly accepted by IESBA, leading to Phase 2 work
  - New project to develop enhancements to the Code
  - Ongoing fact finding on other technologies
  - Consideration of non-authoritative guidance material in collaboration with IFAC, NSS and others



# Phase 1 Report and Project Plan Recommendations

## Key Findings & Recommendations

1

**Critical role  
of ethics and  
PJ**

2

**Complexity  
of the  
professional  
environment**

3

**Transparency**

4

**Accountability**

5

**Privacy and  
Confidentiality**

6

**Enabling  
competencies  
and skills**

7

**Independence**

# Auditor Independence

## TWG analysis grouped into 4 areas

Technology tools used in an audit



Technology applications sold to audit clients



Provision of technology related NAS



Modernization of Code's terms and concepts



# New tech tools and related NAS

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## Examples of emerging tools and NAS engagements

Hosting, storing or synchronizing client data

Data analysis including data mining, data visualization and data integration

Intelligent agents for risk assessment, forensic services, and others

Platforms for presenting and promulgating content

Blockchain-based business applications, including e-commerce

Cybersecurity systems penetration testing

Assessing business continuity or disaster recovery provisions

# Product-to-service continuum

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“Product”

“Service”

Stand-alone tool/application  
or system sold or licensed  
as-is to a client

- Extent of:
- Customization
  - Maintenance
  - Implementation support

601 Accounting and bookkeeping  
(e.g., automated transaction processing)

602 Administrative services  
(e.g., intelligent document mgmt)  
[...]

610 Corporate finance services  
(blockchain-based data visualization)

## Preliminary TF views



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- **Services that fall in subsections of 600** – adjust wording to ensure that their inclusion is apparent;
- **New NAS engagement types** (not captured in 601 to 610) – develop new subsection(s) based on the nature or objective of the service (not based on specific technology);
- **Licensing or sale of a tool/system developed by a firm** – clarify section 520 to recognize the business relationship;
- **Use of IA to perform professional services** – add concept without significant differentiation from human-performed services

## Preliminary TF views



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- **Evaluate independence threats from the sale or licensing of a product based on:**
  - Threats based on the nature of the business relationship that is formed through the arrangement; and
  - Threats based on the underlying service or output performed by the product, *making the assumption that it is the provision of a service that is relevant, not whether that service is performed by a technology product, by firm staff, or a combination thereof.*
- **Blanket prohibition of the sale of a product is overly restrictive**



# Terminology - “Office”



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## Task Force is exploring

- Remove reference to office?
- Amend definition of office – geographical office is not the primary or only consideration

*“**Office** - A distinct sub-group, whether organized on geographical or practice lines, constituted by formal organization or informal practice.”*

- Add application material

## Terminology – “routine and mechanical”

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- **Retain “routine and mechanical” but layer additional application material to reduce the risk of misinterpretation**

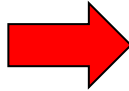
*“Accounting and bookkeeping services that are primarily provided through the use of an automated tool with little to no human intervention on the part of the firm may appear to be routine and mechanical because of the facility with which the task can be completed or the volume of data that can be processed as part of the service. However, the underlying nature of the service should be considered when determining whether the service is routine and mechanical. Such analysis should also consider whether a level of professional judgment is being exercised by the firm through the use of an automated tool, for example, through the tool’s algorithms and as modified by any machine learning.”*

- **Find another term to replace “routine and mechanical”**

# Complexities of the Professional Environment

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- TWG suggested considering a number of approaches, including



Add a new type or category of threat

Revise definition of existing categories of threat

Highlight “complexity” risk in s120

Modify lead-in to para. 120.6 A3

Add examples of “complexity” threats in ss200 and 300

Expand references to individuals to include intelligent agents

## Recommendation 2

Consider revising the Code to more effectively deal with the threats caused by the complexity of the professional environment in which PAs perform their professional activities, giving consideration to options such as those described above.







# Complicated v complex continuum

Simple	Complicated	Complex
Known knowns	Known unknowns	Unknown unknowns
Cause and effect Stable	Experts can generally agree within a reasonable range	Dynamic and synergistic Unpredictable result
No expert needed	Experts to find best solution	Experts need to collaborate
Follow formula	Challenging to solve, but once solved remains solved	Manage the situation and adapt toward solution
	Typical in professional activity	Increasingly common

# Elements of complexity

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Pressure

-  Exponential pace of change
-  Lack of transparency/explainability
-  Uncertainty/ambiguity/contradictory forces
-  Overwhelming nature/level of intensity
-  Capability constraints
-  Resource constraints

Automation  
bias /  
Over-  
reliance

# Threats to compliance with the FPs

2

**120.6 A3:** Threat to compliance with the FPs fall into one or more categories:

Category	The threat that...
Self-interest	A financial or other interest improperly influences a PA's judgment or behavior
Self-review	PA makes an inappropriate assessment because of reviewing ones own work
Advocacy	PA promotes client's/employer's position to the point of losing objectivity
Familiarity	PA is too sympathetic to client's/employer's interests due to close association
Intimidation	PA is deterred from acting objectively by actual or perceived pressures, including attempts to unduly influence

# Is complexity missing from the CF?

2

- TF's view is that Code does *not* adequately address threats stemming from complexity:
  - Some elements tie to self-interest and intimidation, but that's not the whole picture
  - No clear trigger to prompt a PA to consider how various elements of complexity might threaten compliance with FPs



# Four non-mutually exclusive options



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	Location	Way in which to address complexity
1	120.6 A2-3 120.12 A2	Modify the lead-in paragraphs to recognize the potential for additional threat categories
2	120.6 A3	Amend existing threat categories to build in missing elements
3	120.6 A3	Add one or more new threat categories
4	FPs PJ Factors	Highlight complexity as a pervasive factor in decision making while applying the conceptual framework



# Transparency

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## Recap of TWG findings:

- Digital transformation has highlighted importance of trust, leading to push for more transparency, e.g. regarding
  - dealings with customers and others
  - protection of privacy
  - organizational commitment to broader society and environment



## Recommendation 3

Consider revising Subsection 113 (Professional Competence & Due Care) by expanding a PA's *responsibility* to be transparent, which is not currently expressly stated in the Code. Circumstances that impact the extent of transparency that may be appropriate (e.g., in an audit, the type and timing of audit procedures) would need to be considered.

# Transparency



3

TF has considered transparency on two levels

Not withholding info to deceive	Shedding enough light to inform
<p>Integrity FP requires honesty and already prevents known association with materially false statements or from obscuring information to mislead</p>	<p>R113.3 requires the PA to ensure user of services are aware of limitations</p>
<p><i>“R111.2 A professional accountant shall not knowingly be associated with ... information where the accountant believes that the information:...</i>  <i>(c) <u>Lacks transparency in that it omits or obscures required information where such omission or obscurity would be misleading.</u>”</i></p>	<p><i>113.1 A3 Diligence encompasses the responsibility to act ... carefully, thoroughly and on a timely basis, <u>with consideration of the level of transparency appropriate to support decision-making by relevant stakeholders given the nature of the assignment.</u></i></p>

# Accountability

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## Recap of TWG findings:

- When technology is used to assist or augment decision making, questions might arise as to what comprises a PA's individual accountability for his/her work
  - Additional considerations might also include accountability of others involved (eg technology developers)
- TWG believes PAs must be willing to be held accountable for their work and take necessary steps to ensure they properly discharge their duties



# Accountability

## Recommendation 4

Consider strengthening the concept of accountability in the Code by:

- Including new material in Subsection 111 (Integrity) on a PA's willingness to accept responsibility taking into account the new material in Subsection 111 under the Role and Mindset project
- More clearly explaining the concept of accountability in Subsection 113 (PC&DC) in light of the increasing use of external experts and intelligent agents
- Including appropriate reference to technology in the provisions relating to reliance on the work of others in Section 220 (Preparation and Presentation of Information)

Additionally:

- Consider as part of the implementation review of the revised and restructured Code, the effectiveness of the “applicability provisions” set out in paragraphs 200.4(b) and R300.5 to 300.5 A1 with regards to Section 220

# Privacy/Security

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## Summary of TWG findings:

- Need for proactive protection of confidential, personal and other sensitive information is apparent given growth in cyberattacks, headline grabbing data leaks and breaches, and interest in comprehensive data governance frameworks
- TWG believes Subsection 114 (Confidentiality) is not as inclusive of data protection and governance principles as might be appropriate for the digital age
  - Such review might also consider whether, and if so how, the concept of transparency plays into a PA's responsibility to maintain confidentiality at a time of increased public expectation for transparency as previously noted

## Recommendation 5

Consider revising, as a priority, Subsection 114 in light of the increased availability and use of personal and other sensitive data to give appropriate consideration to privacy related matters and the need to actively protect information.

# Enabling Competencies and Skills

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## Recap of TWG findings:

- Importance of new knowledge and skills and capacity for continuous learning consistently cited across all stakeholders
- TWG suggested considering:
  - including new material on “professional skills” in Subsection 113 (PC&DC)
  - whether the Code should include examples of emergent skills in Subsection 113



## Recommendation 6

Consider adding new application material to Subsection 113 to highlight importance of professional or “soft” skills and provide examples of emergent technical skills needed in the digital age

# Enabling competencies and skills

## TF is exploring three options:

**Cross refer to  
IESs from  
Subsection 113**

*“IES 3 prescribes the Professional skills needed by PAs, including intellectual, interpersonal...”*

**Embed IES-  
aligned wording  
into Code**

*“Professional skills needed by PAs include reasoning, critical analysis, innovative thinking, communication, collaboration...”*

**Hybrid approach  
IES wording +  
cross refer**

*Application material plus Define professional competence based on and reference to IESs*

# Critical Role of Ethics and Professional Judgment – Promoting ethical behavior

1

## Recap of TWG findings:

- Whilst PAOs should actively promote the profession and its members' ability to create trust, individual PAs could also have a broader role to promote ethical behavior
- Such a role should be highlighted in the Code in addition to what is already in Part 2 and the proposed changes under the Role and Mindset ED at that time
- No additional Code changes re: professional judgment

## Recommendation 1

Consider adding new application material in Part 1 of the Code to more clearly highlight a broader societal role for PAs in promoting ethical behavior as a critical, consistent foundation for businesses, firms and other organizations, particularly when developing and using technology.





# Critical Role of Ethics and Professional Judgment



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## Task Force is exploring

- Need for a direct reference to tech in introductory section of Code?
- Add AM in Section 120 in relation to building trust specific to tech

“Increasingly the role of the accountant, whether in business or in practice, involves the use of technology, either directly or in relation to outputs from technology driven processes. Promoting ethical behavior as a critical, consistent foundation for organizations is particularly relevant when developing and using technology given its potential impact.”

- That these matters also be addressed through non-authoritative material



# The Ethics Board

[www.ethicsboard.org](http://www.ethicsboard.org)

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