

16 June 2022

Gabriela Figueiredo Dias  
Chair  
International Ethics Standards Board for Accountants  
539 Fifth Avenue  
New York, 10017  
USA

Dear Ms Figueiredo Dias,

***IESBA Proposed Technology-related Revisions to the Code***

Thank you for the opportunity to comment on the IESBA Proposed Technology-related Revisions to the Code. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the Proposed Technology-related Revisions to the Code in the attachment.

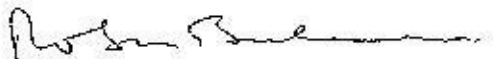
The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards including professional and ethical standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards and standards for related services.

The NZAuASB's mandate is limited to developing ethical standards for assurance practitioners. Our consideration of the Proposed Technology-related Revisions to the Code is limited in this regard.

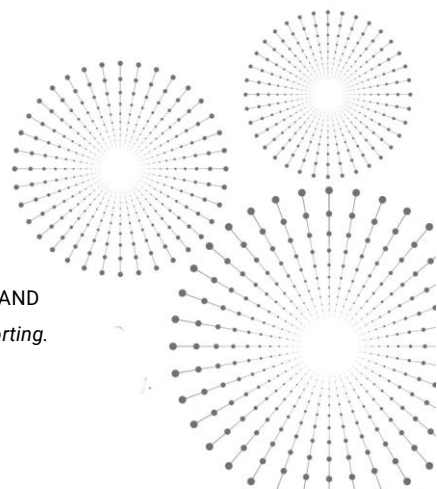
The NZAuASB supports the IESBA's initiative to enhance the Code's robustness and its relevance in an environment reshaped by rapid technological changes. In formulating our response, we sought input from New Zealand stakeholders and received input from assurance practitioners by way of polling at a well-attended webinar and sought feedback through written submissions. There is a general support for the proposed revisions. However, we have identified aspects for further refinement or elaboration, as outlined in our submission attached.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Misha Pieters ([misha.pieters@xrb.govt.nz](mailto:misha.pieters@xrb.govt.nz)).

Yours sincerely,



**Robert Buchanan**  
Chairman  
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## Submission of the New Zealand Auditing and Assurance Standards Board

### IESBA Proposed Technology-related Revisions to the Code

#### *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?

**Response:**

Yes, the NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

#### *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?

**Response:**

Yes, the NZAuASB supports the proposed factors to be considered whether to rely on or use the output of technology and so did the majority of the New Zealand stakeholders we polled during our online webinar.

The NZAuASB encourages the IESBA to add emphasis on the following matters:

- a) The need for an accountant to understand what technology is doing.

We support the view that it is not realistic to expect that a professional accountant understands all specific details of how the technology functions. To help an accountant to make a professional judgement regarding reliance on outputs of the technology, it would be helpful to explain that the proposed factors should be considered as a mitigation of the lack of understanding technical details what is "inside" of the technology and providing alternative ways to ensure the technology can be relied upon.

This could be achieved by adding overarching wording before the bullet points in paragraphs 220.7 A2 and 320.10 A2 along the following lines: "It might be impractical for professional accountants to understand the technical details of how the technology functions. Professional accountants might consider all other available and understandable information for the purpose of relying on the output of the technology".

- b) Technology is tested and evaluated on a continuing basis to ensure it is fit for purpose.

Circumstances in which professional accountants operate are changing, therefore the technology should be tested and evaluated on regular basis if it is to be fit for purpose. We suggest building on the fifth bullet point in paragraphs 220.7 A2 and 320.10 A2: "Whether the new technology has been appropriately tested and evaluated for the purpose intended" and include consideration that after initial testing and evaluation, the technology should be regularly tested and evaluated to ensure it is fit for the purpose.

We suggest that the following additional bullet point would be helpful: "whether the technology that has been relied on, is regularly evaluated to be fit for purpose".

- c) Role of the employing organisation or the firm

Professional accountants engaged by an employing organisation or a firm usually rely on a dedicated team of technology specialists (employed by a firm or outsourced) who are responsible for maintaining the technology

within the firm, understanding how the technology functions and that it is fit for purpose. Professional accountants in public practice rely on their firm's system of quality management that includes obtaining, developing, implementing and use of appropriate technology resources. It could be clarified in the Code that the factors to consider when relying on output of technology might be performed at a firm level instead of by professional accountants themselves.

#### *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?

**Response:**

Yes, the proposed application material in paragraph 120.13 A3 includes helpful tips on managing challenges associated with complex circumstances. The NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

However, we have heard several comments that the proposed guidance is too general in nature. There is a need for more examples and guidance. We recognise that this guidance would be quite specific, therefore we recommend that non-authoritative material covering specific examples and guidance would be very useful, to work in tandem with this addition.

- 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?

**Response:**

No, the NZAuASB has no comments to add on translation.

#### *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?

**Response:**

Yes, the NZAuASB supports the proposals and does not have further comments.

- 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?

**Response:**

Yes, the NZAuASB supports the proposals and does not have further comments.

#### *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?"

**Response:**

Yes, the NZAuASB supports the proposals and does not have further comments.

- 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 subparagraph 36(c) of the explanatory memorandum)?

**Response:**

Yes, the NZAuASB supports the proposals and does not have further comments.

*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.

**Response:**

Yes, the NZAuASB supports the proposals and does not have further comments.

- 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.

**Response:**

Yes, the NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

- 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).

**Response:**

Yes, the NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

- 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)?

**Response:**

Yes, the NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

The NZAuASB considered if it is appropriate to place the prohibition of these services in application material as opposed to a requirement paragraph. The Code has two different approaches to the prohibition of certain services:

1. Prohibition included in application paragraph, for example in Section 605 Internal Audit Services

Section 605 Internal Audit Services includes a requirement paragraph regarding risk of assuming management responsibility followed by an application material with examples of services that will assume management responsibility. The placement of the application paragraph in this part makes it clear that these are examples of services that are prohibited.

The Exposure Draft proposes the same structure for IT system services. The application paragraph is placed directly under the requirement paragraph regarding what conditions needs to be met to ensure that a service does not assume management responsibility (paragraph R606.3).

2. Prohibition in a requirement paragraph placed in a separate subsection, for example in Sections 609 and 610

Sections 609 and 610 include subsections titled “Recruiting Services that are Prohibited” and “Corporate Services that are Prohibited”. It could be argued that a similar subsection named “IT System Services that are Prohibited” could be created in Section 606 to include hosting services and the operation of an audit client’s network security, business continuity and disaster recovery function.

Overall, we concluded that both approaches result in the same outcome, which is effectively a prohibition of the services.

The NZAuASB also is supportive of proposed paragraph 606.3 A2. The explanation that hosting data for the purpose of performing permissible service is important clarification. It is common practice nowadays, that an audit client copies some client data and transfers it to software managed by the audit firm. The auditor only uses the data for the purpose of an audit or review engagement, and this does not result in assuming management responsibility.

- b) The withdrawal of the presumption in extant subparagraph 606.4 A2(c)18 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?

**Response:**

Yes, the NZAuASB supports the proposals and does not have further comments.

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

**Response:**

Yes, the NZAuASB supports the proposals and so did the majority of the New Zealand stakeholders we polled during our online webinar.

- 11) Do you support the proposed changes to Part 4B of the Code?

**Response:**

Yes, the NZAuASB supports the proposals.

The NZAuASB considered examples where a self-review threat might be created for an assurance engagement. The proposed revision to paragraph 950.10 A1 A includes additional technology-related examples including: “designing, developing, implementing, operating, maintaining, monitoring, updating IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls”. This example relates only to situation where the assurance engagement relates to IT

systems or IT controls themselves. We consider that an example where assurance is provided over subject matter information that is generated by the IT system is also relevant. This situation might become common, for example when new IT systems are developed for ESG reporting purposes. This could be illustrated by the following scenario:

- An audit firm designs an IT system that gathers and computes greenhouse gas emissions data
- A client uses a report from this IT system to prepare its greenhouse gas emissions statement
- The audit firm performs assurance engagement on the greenhouse gas emissions statement.

We consider that a self-review threat is created because the calculation of the input to the non-financial information was performed based on an IT system designed by the firm.

We suggest that the following example be added to paragraph 950.10 A1: “Designing, developing, implementing, operating, maintaining, monitoring, updating IT systems or IT controls when they form part of or affect an assurance client’s records or system of internal control over non-financial reporting and subsequently undertaking an assurance engagement on a non-financial information.”