

Impact of Technology on Auditor Independence

The IESBA's Technology Task Force Seeks Your View About the Impact of Technology on Independence Matters

The IESBA's Technology Task Force (TTF) is considering revisions to the [IESBA Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code) to respond to the transformative effects of technology. The [Project Proposal](#) was informed by the December 2019 [IESBA Technology Working Group Phase 1, Final Report](#) which set out seven recommendations, including specific areas for enhancements to the Code.

The purpose of this survey is to solicit input in relation to Recommendation 7 of the Final Report relating to Independence with a view to strengthening Part 4A of the Code, to:

- Consider whether certain provisions in [Part 4A](#), such as those in Section [520](#) (Business Relationships) should be revised to address the threats to independence created by the sale or licensing of technology to audit clients and the use of an audit client's technology tool in the delivery of non-assurance services (NAS) to another entity.
- Revise Section [600](#), particularly Subsection [606](#) (Information Technology Systems Services), with respect to the provision of technology-related NAS. Consideration will need to be given to the revised principles addressing the permissibility of NAS and related provisions when finalized under the [NAS project](#), as well as broader relevant feedback received on the NAS Exposure Draft.

The TTF is seeking information about how the extant Code is applied to help progress the IESBA's technology project. The survey refers to the extant Code. Any potential refinements to the Code, to include technology related matters, will need to be made to the final revised NAS text, expected to be approved by the IESBA in December 2020.

In particular, the IESBA is seeking your views on how the provision of technology-related non-assurance services and the sale or licensing of technology to audit clients could threaten independence and where such products and services fit within the Code. Additional reference material can be found on the [Technology project page](#).

The survey is structured around this [diagram](#) which summarises the Task Force's thinking. You may find it helpful to keep it handy as you respond to the survey.

Because the stages of implementation of the Code may vary by jurisdiction, the survey is designed to allow respondents to respond based on their circumstances and experience.

All responses to this survey, whether complete or partial, once submitted will be accepted and considered as input for the work of the Technology Task Force. The responses received will be summarized (in various ways, including, for example per stakeholder group) for purposes of progressing the IESBA's technology project, including considering changes to the Code to refine the finalized NAS text to include technology related matters, and development of non-authoritative material. There will be no attribution of responses to any individual respondent.

Completed questionnaires are requested by 10 November 2020

Please contact Kam Leung (KamLeung@ethicsboard.org) for any questions.

Part A – Demographic Information

1) What jurisdiction or region are you representing?

2) Please indicate which of the following best describes your role:

- Practitioner, Auditor or Audit Firm
- Professional Accountancy Organization
- National Standard Setter
- Regulator or Audit Oversight Body
- Academic/ Accounting educator
- Investor or Users of Financial Statements
- Those Charged With Governance
- Preparer
- Other

3) Please describe your role within the organization or firm

4) Has your jurisdiction and/or firm adopted the Code?

- Yes
- No

If not, what are the applicable independence and ethics policies and regulations that are followed?

5) Would you be willing to be contacted for a short interview (no more than thirty minutes) on the topic of technology and its ethical implications for professional accountants?

Yes

No

If yes, please provide the following contact information

Your name and job title/ role*: _____

Your organization's name*: _____

Your email address*: _____

Part B – Survey Questions

Please answer the questions that follow in light of the national ethical requirements that you apply, if you do not adopt the Code.

Advances in technology-enabled services and advanced technology products

Firms of varying sizes are investing in the development and use of advanced technologies, such as data analytics, machine learning and predictive analysis related to the performance of audits and the provision of non-assurance services (NAS). Additionally, technology products developed by firms, for example to improve operational efficiency or control environments, are being sold or licensed by the firms.

Some examples of developments in technology-related services or products include:

- Automated transaction processing
- Intelligent document management or data aggregation
- Valuations based on AI-enabled predictive models
- AI-enabled tax minimization tools
- Cybersecurity penetration testing
- AI-enabled prediction of success at trial
- AI-enabled legal document scanning or predictive analytics
- AI-enabled résumé screening
- Blockchain-based data visualization to provide information in real-time for better decision making
- Blockchain-based e-commerce.

6) What services and/or products are you aware of that are being offered by firms that have been made possible by advanced technology developments?

Please provide a brief description of the nature of these services and/ or products.

7) Are these services and products jointly developed with a third party?

Yes

No

In some cases

8) How are these services and products distributed (check all that apply):

Service agreement

Licensing agreement

Outright sale

Other, please describe: _____

Non-assurance services engagements

Task Force's view

Conceptually, it may be useful to fully separate a product from a service, but this is more difficult in practice. A number of examples highlight that in practice there is a product-to-service continuum, where examples of “products” are increasingly a combination of products and services. In some cases, products take on the role of delivering services traditionally performed by firm staff more directly. i.e. advanced technology products developed by the firm embody aspects of the professional accountants’ technical knowledge, professional expertise, methods and/or processes to deliver an output.

The “product versus service” classification question is challenging, as Section [600](#) (Provision of non-assurance services to an audit client) and its subsections purposefully reference non-assurance *services* (NAS), with no mention of products. In addition, the Code, including in Section 600 (extant and proposed), uses the term ‘engagement’. Although ‘engagement’ is not a defined term, from the context in which it is used - in relation to audit, review, assurance, non-assurance services - a reader would ordinarily conclude that the term is used in relation to the provision of services (rather than products) to a client.

A firm selling or licensing technology does not ordinarily constitute an engagement. For this reason, a firm may not consider the requirements of Section 600 and its sub-sections to the sale or licensing of a product to a client.

The Task Force is of the view that the requirements and application material to evaluate threats to independence apply equally regardless of whether the output is developed by the firm’s staff or technology (including an intelligent agent) developed by the firm, which might be sold or licensed to a client or used by the firm to provide a service to that client.

9) Do you consider that the independence requirements that apply to the provision of Non-Assurance Services to an audit client (e.g. Section [600](#) and its subsections if you apply the IESBA Code) to identify, assess and address the threats to independence are relevant where the firm sells or licenses technology that performs a non-assurance service?

Yes

No

Please explain why

Do you consider this to be the case in all circumstances or what specific factors are applied in making that determination?

If no, how do you consider the identification, evaluation and addressing of threats to independence created by the sale or licensing of technology? Please provide illustrative examples for your response.

10) Considering the product-to-service continuum above, are you aware of any pure products (i.e., products without a related NAS element)?

Yes

No

If yes, please explain the nature of the technology products and what factors you consider to identify, evaluate and address any threats to independence.

Task Force's view

Some advanced technology-related services are already covered by Section [600](#) of the Code. Many of the new types of engagements already fit within the extant intent of subsections 601 to 605 or 607 to 610, for example:

- [601](#) Accounting and bookkeeping services (e.g., automated transaction processing)
- [602](#) Administrative services (e.g., intelligent document management or data aggregation)
- [603](#) Valuation services (e.g., valuations based on AI-enabled predictive models)
- [604](#) Tax services (e.g., AI-enabled tax minimization tools)
- [605](#) Internal audit services (e.g., cybersecurity penetration testing)
- [607](#) Litigation support services (e.g., AI-enabled prediction of success at trial)
- [608](#) Legal services (e.g., AI-enabled legal document scanning or predictive analytics)
- [609](#) Recruiting services (e.g., AI-enabled résumé screening)
- [610](#) Corporate finance services (e.g., blockchain-based data visualization to provide information in real-time for better decision making)

There might be other non-assurance services (NAS) engagement types that are enabled by advanced technologies that do not fit within the current NAS subsections 601 to 610.

The Task Force is seeking feedback as to the need to clarify Section 600 and its subsections as a result of advanced technology developments and/or the need for additional sub-sections defined by the type or objective of the new service being offered, and not by the technology being used to perform the service (e.g., “autonomous decision support services,” as opposed to “using AI or intelligent agents”).

11) Are there services enabled by technology advances that you believe should be more specifically covered in the independence requirements (e.g., by more explicitly including them in subsections 601-610 or in their own sub-sections)?

Yes

No

Please explain what the services are or what the technology does.

12) Have you developed any policies, procedures or guidance for these services or technology regarding identification, evaluation and addressing threats to independence created through the provision of these services?

Yes

No

If yes, please provide a brief description of the types of guidance developed.

Task Force's view

There are also situations where the firm designs or implements a system for a client, which falls into Subsection [606](#) (Information Technology Systems Services). The Task Force is considering how such services are evolving, including with respect to customization, configuration and "off the shelf" systems. Even though the system being designed or implemented could be considered a "product," the firm's role is to design and/or implement the client's system, which reflects the service in subsection 606.

13) Do you believe that the independence requirements relating to Information Technology System Services (e.g. in Section 606) would benefit from additional clarity on the following matters? (Check all that apply)

What does "implement and design" mean

What does "off the shelf" constitute

What do "customization" and "configuration" mean and how do they differ

What would be considered as "not significant" levels of customization

Other, please describe: _____

For the boxes that you have check above, please elaborate why and how additional clarity could be achieved?

Sale or licensing of technology

Task Force's view

Business relationships that arise when a firm sells or licenses technology to an audit client do not usually create a threat to independence if the sale or licensing is in the normal course of business, is not significant, and is at arm's length. The Technology Task Force considers that the sale or licensing of technology creates a business relationship between the firm and the client and is therefore considering revising Section [520](#) (Business Relationships).

The Task Force is exploring what threats might arise from such business relationships, and in what circumstances those threats might result from a close business relationship. The Task Force is of the view that the sale or licensing of a product does not necessarily result in a close business relationship and would not necessarily be prohibited by [R520.4](#). The Task Force is seeking examples of circumstances where the sale or licensing of technology to an audit client creates a close business relationship, such as those described in [520.3 A2](#), so as to warrant prohibition in accordance with R520.4.

While the business relationship is one aspect, the Task Force considers that a secondary evaluation of the output of the technology that has been sold or licensed is also necessary. Technology can increasingly perform the services currently detailed in Section [600](#) (Provision of Non-assurance Services to an Audit Client) and its sub-sections. The requirements and application material to evaluate threats to independence seem to apply equally regardless of whether the output is developed by a firm's technology or by the firm's staff. The Task Force is seeking views as to the need to make this secondary evaluation more apparent.

A firm selling or licensing a technology product to a client does not necessarily result in an engagement. For this reason, a firm may not consider the requirements of Section 600 and its sub-sections to the sale or licensing of a product to an audit client.

14) In what circumstances do you consider that selling or licensing technology to a client creates a close business relationship (such as those in [520.3 A2](#)), and would warrant prohibition (such as in [R520.4](#))?

15) If you believe there are no such circumstances, why not and what requirements do you apply to address any threats to independence arising from the sale or licensing arrangement?

16) What considerations have you made for, or do you consider apply in, the situation where technology has been designed, implemented, sold or licensed to a non-audit client that subsequently becomes an audit client?

Routine or mechanical

The Task Force is considering modernizing the terminology in the Code, in particular the term “routine and mechanical” as used in subsection [601](#) (Accounting and Bookkeeping Services) and [602](#) (Administrative Services) in light of the increasing use of automation tools and the nature of machine learning. Automation tools can have technical expertise embedded in the system, and machine learning enables a machine to learn from the data it processes and take on aspects of human judgement.

Task Force’s view

The Task Force is of the view that the key determining factor as to whether a task is “routine or mechanical” is whether the task requires little or no technical expertise or professional judgement, rather than whether the task can be automated so as to be executed in a “routine and mechanical manner”. In other words, a task is only routine and mechanical if it requires little or no technical expertise or professional judgement, regardless of whether the task is being performed by a human or an automated system. The Task Force is considering developing application material to emphasize this.

17) When do you consider automated services, including those enabled by machine learning, to be “routine and mechanical”?

18) Do you agree that the key determining factor as to whether a task is “routine or mechanical” is whether the task requires little or no technical expertise or professional judgement, rather than whether the task can be automated so as to be executed in a “routine and mechanical manner”?

Yes

No

If no, could you please explain your rationale.

Any other matters

19) Is there any additional information you believe to be relevant to clarify circumstances or experiences that have informed your views or perspectives in which you have completed the survey?

Thank You!

Thank you for taking our survey. Your response is very important to us.

This model provides guidance on which Section(s) of the Code should be referred to for each type of technology offering. The model focuses on the underlying service being offered either directly or through particular technologies, rather than on the technologies themselves, and helps determine the extent to which these offerings:

- continue to fit within Section 600 and its sub-sections as currently reflected in the NAS exposure draft. A fundamental question is whether these new technologies, in fact, constitute “services” (at least in part) such that they fit intuitively into the NAS provisions.
- are engagements where the firm designs or implements a system for a client, which falls into Subsection 606.
- are new types of NAS that are enabled by new technologies that do not fit within the current NAS subsections 601 to 610. This would result in the drafting of new NAS subsections.
- result from a firm developing and maintaining ownership of a technology and licensing it to audit clients with or without further customization. This would reflect a technology “product” licensing arrangement that creates a form of business relationship.

