



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

5 July 2022

Mr Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, 10017 USA

Dear Ken Siong,

**INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (“IESBA”)
EXPOSURE DRAFT, PROPOSED TECHNOLOGY - RELATED REVISIONS TO THE
CODE**

The Ethics Standards Board (“ESB”) of the Malaysian Institute of Accountants (“MIA or the Institute”) welcomes the opportunity to provide its comments on the IESBA Exposure Draft (“ED”), *Proposed Technology-related Revisions to the Code*.

We enclose in Appendix 1, our response to the questions contained in the ED.

We hope our comments would contribute to the IESBA’s deliberation in finalising the ED. If you have any queries or require clarification of this submission, please contact Simon Tay Pit Eu at +603 2722 9271 or email at simontaypiteu@mia.org.my.

Thank you.

Yours sincerely,
MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR. WAN AHMAD RUDIRMAN WAN RAZAK
Chief Executive Officer

APPENDIX 1

PART A: SPECIFIC COMMENTS

We have outlined our responses to each question in the ED below.

Technology-related Considerations When Applying the Conceptual Framework

Q1. 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?

We are generally supportive of the proposals which set out the thought process in considering whether the use of technology might create a threat to compliance in paragraphs 200.6 A2 and 300.6 A2. However, we are of the view that the proposed paragraphs do not clearly link the considerations set out here to the threats to compliance with the fundamental principles. Hence, further clarification is still required.

In addition, we considered that there may be practical challenges for professional accountants in business and in particular the IT personnel. It may be difficult for those in business to document the proposed items in paragraph 200.6 A2 if there is no guidance on how this is to be carried out.

We encourage the IESBA to consider the merit of including further practical guidance or application materials on this matter. Alternatively, other forms of non-authoritative materials will be helpful.

Determining Whether the Reliance on, or Use of, the Output of Technology is Reasonable or Appropriate for the Intended Purpose

Q2. 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?

In relation to paragraphs 220.7 A2 and 320.10 A2, while we are of the opinion that reputation of the developer can be one of the factors to be considered when determining whether to rely on or use the output of the technology, it should not be the sole measure of the quality of technology. This is because the evaluation of reputation (while easily accessible online in today's environment), can still be subjective and unreliable without the consideration of further due diligence. To focus on the reputation of a developer may result in professional accountants underestimating the importance of other objective factors in determining the reliability of the technology.

We suggest that the IESBA clarify on how the reputation of the software developer is assessed and how this factor would impact the professional accountant's considerations when it is not possible to assess their reputation (especially when it involves emerging technology).

We would also draw your attention to paragraph 320.10 A2 where one of the factors is the professional accountant's ability to understand the output from the technology for the context in which it is to be used. The Institute supports the inclusion of this factor as we believe the professional accountant should possess this ability.

However, we seek further clarification from IESBA on the application of this factor from the perspective of a professional accountant in business. For professionals in practice, the ISAs contain provisions on the use of the work of experts, which allows for access to experts who can provide assurance on the reliability of this output. We believe a similar provision can be introduced to provide an avenue for the professional accountant in business to obtain reasonable access to the knowledge, skills and experience required to obtain that understanding.

We propose that the IESBA consider if it would be relevant to clarify in paragraphs 220.7 A3 and 320.10 A2 that if the professional accountant does not have the required expertise to determine whether reliance could be placed or determined, the professional accountant should have access to the knowledge, skills and experience needed to assist in making such a determination.

Consideration of "Complex Circumstances" When Applying the Conceptual Framework

Q3. Do you support the proposed application material relating to complex circumstances in proposed paragraphs 120.13 A1 to A3?

We are of the view that the proposed application material in paragraphs 120.13 A1 to A3 are reasonable considerations that are usually evaluated by a professional accountant but note that the term "complex circumstances" is not actually defined. The distinction between the terms "complex", "difficult" and "complicated" is also unclear. This may result in inconsistent application in practice.

We believe the aim of the proposed paragraphs are not met as the term "complex" is relative and open to interpretation depending on the individual's background, skills, and experience.

Furthermore, we would also request to clarify if the addition of this material should change how a professional accountant would approach threats and safeguards. It is ultimately unclear on what is required of the professional accountant in respect of these "complex circumstances" and would give rise to confusion on the necessity of the application material if there is no additional documentation required or guidance on how a professional accountant should approach these "complex circumstances".

We would suggest that if the IESBA moves forward with the inclusion of these proposed paragraphs, a clear definition on "complex circumstances" should be introduced. It should also include identifying elements, variables and assumptions that make a circumstance complex. This would aid in the consistent application and make the mitigating factors listed in paragraph 120.13 A3 more practical in its application.

Q4. 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?

Apart from the matters detailed in Q3 above, we are not aware of any other considerations that may impact the proposed revisions.

Professional Competence and Due Care

- Q5. 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?**

In our opinion, it is not apparent that the proposed revision to paragraph 113.1 A1 adds value to the Code. The Institute considered if such skills set out here were necessary in considering if a professional accountant is technically competent. We believe that ultimately it is difficult to gauge the degree of competency in these skills as it is mostly a matter of personal opinion.

Alternatively, we would suggest that the IESBA make reference to the 3 categories outlined in the International Education Standards (IES), which are (a) technical competence, (b) professional skills, and (c) professional values, ethics and attitudes. Implementation guidance could then be developed to make it clear that the proposed revisions in paragraph 113.1 A1 aim to highlight the professional competencies needed to interpret and apply the results of tasks completed using technology and that these proposed revisions largely build on the role and mindset revisions earlier.

- Q6. 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?**

Yes, we agree to not include additional new application material that would make an explicit reference to standards of professional competence such as the IESs in the Code. However, we are of the view that a general reference to the 3 categories outlined by the IES could be made as mentioned in our response above.

Confidentiality and Confidential Information

- Q7. 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?”**

We are generally supportive of the proposed revisions in paragraphs 114.1 A1, 114.1 A3 and the proposed Glossary definition. The Institute understands the importance of maintaining confidentiality in the course of professional and business relationships but would further suggest that the IESBA indicate a minimum acceptable action required by the professional accountant in terms of securing such information. Presently, this is not clear within the proposed revisions and consistent application of these revisions will be challenging.

- Q8. 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 are agreeable that “privacy” should not be explicitly included as a requirement as it is already addressed by most national laws and regulations.

Independence (Parts 4A and 4B)

Q9. 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;**
- (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;**
- (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).**

In respect of proposed revisions in paragraphs 400.16 A1, we find that its relationship to “routine or mechanical” services is not evident. From our perspective, the paragraph sets out to address manual and automated services; that when non-assurance services provided by the professional accountant are automated, the prohibition relating to management responsibility still applies. If this is not the intention of the paragraph, we would advise that the IESBA review and revise the wordings to make it clearer.

With paragraph 601.5 A2, we are concerned with the inclusion of the phrase “how the technology functions” as we do not believe this provides a definitive answer as to whether the services are routine or mechanical. In addition, this factor may cause confusion as it could be interpreted as a factor for considering whether the services are manual or automated, rather than in determining if the service is routine or mechanical.

We support the additional proposed examples to clarify the technology-related arrangements that constitute a close business relationship. However, we would also suggest the inclusion of the definition of “business relationship” to the Code in order to clarify what constitutes a business relationship to support consistent application of the Code. We also noted that this is a possible area that will be dealt with under the Strategy & Work Plan for 2024-2027.

Regarding the proposed revisions to remind professional accountants on providing, selling, reselling or licensing technology, we agreed with the IESBA’s position. From the perspective of an audit firm, a self-review threat may arise when the firm sells technology to an audit client regardless of whether the technology was developed by the audit firm or otherwise. The audit firms may not, perception-wise, have the objectivity to provide feedback on the technology if the said technology is also promoted or provided by the audit firm. In this case, non-assurance service provisions and the relevant prohibitions should therefore, apply when an audit firm resells technology to an audit client.

Q10. 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)?**
- (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 threat¹⁹ in proposed paragraph 606.4 A3?**
- (c) The other examples of IT systems services that might create a self-review threat in proposed paragraph 606.4 A3?**

Overall, we are supportive of the proposed revisions to subsection 606 with the exception of paragraphs 606.3 A1 and 606.3 A2. In regard to these paragraphs, we have concerns on the prohibition of services in relation to hosting an audit client’s data. The outright prohibition on hosting client’s data does not seem aligned with the principles-based nature of the Code. In addition, the term “data” is not defined and can be broad in scope. Certain types of data are more relevant to auditors and to the management than others. Data could also be historic and have no relevance to a current year audit or operations of the business; hence the possibility of any threat is negligible.

We would like to seek clarity on this prohibition as it does not seem to effectively address the threats alluded to with the hosting of data for audit clients and may have unintended overarching consequences.

We propose that the IESBA reconsider these paragraphs and instead require the professional accountant to consider the specific type of data being hosted, the method of hosting and the purpose of hosting the data prior to concluding whether management responsibility is assumed by doing so. The development of application guidance relating to these aspects would be useful in achieving consistent application of the Code.

Q11. Do you support the proposed changes to Part 4B of the Code?

Yes, we support the proposed changes to Part 4B of the Code.

PART B: Request for General Comments

In addition to the request for specific comments above, the Institute is also seeking comments on the matters set out below:

- ***Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)*** – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

We have no further comments from the perspective of SMEs and SMPs.

- ***Regulators and Audit Oversight Bodies*** – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.

Not applicable.

- ***Developing Nations*** – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

We do not foresee difficulties in applying these proposals in the Malaysian environment.

- ***Translations*** – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

Not applicable.