

**Strategy and Work Plan 2024–2027 Question 6**

Are there other topics that we should consider as new standard-setting projects? If so, please indicate whether any such topics are more important than the topics identified in Table B (see pages 20–22), and the needs and interests that would be served by undertaking work on such topic(s).

**6.1 Suggestions for new projects****6.1.1 Revision of current standards****1. Monitoring Group****International Organization of Securities Commissions (IOSCO)**

ISA 402, Audit Considerations Relating to an Entity Using a Service Organisation Medium

Evolution of business practices such as increased use of cloud-based organizations and outsourcing of key operational functions has resulted in extensive use of service organizations by an entity and, therefore, increased use of service auditor's report by the auditor of an entity. Improved guidance is needed when the auditor considers the scope of work performed by the service organization auditor and whether the nature, timing and extent of such tests provide sufficient appropriate audit evidence about the operating effectiveness of the internal control to support the auditor's assessed risks of material misstatement.

ISA 540 (Revised), Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures High

Key matters not addressed in the revised standard, including sampling, setting of thresholds for valuation differences, using the work of management's experts, and specific guidance for valuation of financial instruments (refer IOSCO CI comments on exposure draft for further information).

**4. National Auditing Standard Setters****Canadian Auditing and Assurance Standards Board (AASB)**

and to revise ISAE 3000.

**Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)**

Direct engagements under ISAE 3000 (Revised), which are very common in the public sector, but are also becoming increasingly more common in the private sector,

We believe that there are a number of topics of international relevance that ought to be considered by the IAASB for inclusion on its list of potential projects.

In particular, we note that in our jurisdiction, and we surmise that in many other jurisdictions, assurance engagements are performed on prospective (i.e., forward-looking) information. This includes both forward-looking financial information and forward-looking non-financial information of various types. We believe it would be advantageous for the IAASB to undertake a survey to determine whether statutory or voluntary assurance engagements are performed on such information in enough jurisdictions to warrant considering whether a project to revise ISAE 3400 would be desirable. However, given the experience of the IAASB in developing ISAE 3420, we would recommend that forward-looking information in prospectuses be excluded from the scope of any such project because of the differing regulatory regimes in this respect. We note that

current ISAE 3400 provides an excellent basis upon which to build for such a project but would also like to point out that ISAE 3400 has not been revised since 1995 and was never converted into clarity format. It is the oldest and most outdated standard in the IAASB's suite of standards but is nevertheless used directly or indirectly as a basis for national standards and guidance in this area for lack of another international standard. For these reasons, we believe that time should be set aside for a potential project in this matter in 2026 or 2027. Consideration could also be given to drawing upon the resources of national standard setters to assist in performing such a project.

## 5. Accounting Firms

### RSM International Limited

Other than our above comments on ISAE 3410,

## 6.1.2 Suggested new standards

### 1. Monitoring Group

#### International Organization of Securities Commissions (IOSCO)

Internal Controls            Medium

We believe better guidance, or potential standard setting, is needed to support high-quality audits as it relates to internal controls. Specific areas where we believe audit quality could be improved include: identification of relevant controls the auditor intends to rely to address a risk of material misstatement; designing and performing appropriate audit procedures to test the operating effectiveness of relevant controls, specifically those related to information technology (IT) general controls and the control environment; assessing the effectiveness of entity level controls (e.g. business performance review controls) in addressing risks of material misstatement related to a specific account assertions; and applying system rotation plans.

### 4. National Auditing Standard Setters

#### Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)

Agreed-upon assurance procedures engagements (not to be confused with agreed-upon procedures engagements, since unlike the latter, the former involves considerable practitioner judgment with respect to extent of procedures, and in some circumstances, timing thereof).

Other related services engagements, such as

Expert opinions,

The issue of “blended engagements” (and in particular, reporting for these), when many different kinds of information and assurance and related services engagements are performed on such information in one engagement and provided in one report,

We also believe that there are other assurance and related services engagements (beyond agreed-upon procedures engagements and compilation engagements) performed by practitioners across national boundaries that may be considered for future projects. These may include engagements for:

## Royal Netherlands Institute of Chartered Accountants (NBA)

Further, IAASB may want to explore the impact of ‘soft controls’ in audits.

## 7. Member Bodies and Other Professional Organizations

### European Federation of Accountants and Auditors (EFAA)

We have two comments.

While we applaud the IAASB’s development of an ISA for LCEs, to realize its potential the roll-out of this standard will demand an extensive education campaign to build understanding and trust in the merits of an LCE audit engagement that uses it.

We fear that the post-implementation review of the quality management standards will prove they are insufficiently scalable for SMPs. We therefore urge the IAASB to assist the IFAC SMP Advisory Group in the development an implementation guide like IFAC’s ‘Guide to Quality Control for SMPs’ and if this is not enough to be open to carefully consider the need for an ISQM for SMPs.

### International Federation of Accountants’ Small and Medium Practices Advisory Groups (SMPAG)

We also support the Board continuing to monitor and assess developments in technology and its application in an audit. At this point in time, we do not suggest a specific standard setting initiative for technology be added to the work plan but note that both staff and Board resources will nevertheless be needed in this area. One example could be the development of guidance on the impact of technology on audit sampling. Auditors are increasingly using ATT in selecting samples for testing and data analytics tools to analyse data used to build financial reports and may benefit from guidance on identifying exceptions and how to address or respond to those identified exceptions.

## 8. Academics

### Deakin University Integrated Reporting Centre

We also believe that developing an assurance-based advisory services standard as a priority would be highly valued by the market as preparers, practitioners and users get ready to evaluate the pre-conditions for assurance and descriptions of The Business and Basis of Preparation and Presentation in the early stages of sustainability assurance engagements under S1, S2 and the Integrated Reporting Framework.

## 6.1.3 IT related projects

### 4. National Auditing Standard Setters

#### Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Assurance on XBRL

We want to stress again the importance of technology aspects (e.g. AI, robotics, process mining, etc.) in drafting new standards or revising existing ones.

#### Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)

Assurance engagements in relation to IT (e.g., cybersecurity, data protection, and safeguarding essential IT infrastructure),

## 5. Accounting Firms

### Ernst & Young Global Limited

Embedding consideration of the entity's use of emerging technologies in the auditing standards: As noted in the introduction to this letter, we believe having a strategy to address the entity's use of emerging technology in their financial reporting processes and the related auditor responsibilities is critical to developing standards that will remain fit for purpose. We believe the development of implementation guidance is an important first step and should consider, but not be limited to, the following:

The auditor's responsibilities for understanding an entity's ability to provide appropriate oversight of their technology strategy within their system of internal control.

The auditor's responsibility to address risks of material misstatement introduced by the entity's use of applications that learn and evolve over time (i.e., artificial intelligence) in the financial reporting processes, including the ability to verify the completeness and accuracy of the output of such applications and the responsibility to consider any bias, whether latent or learned, inherent in the development of these applications.

Obtaining audit evidence over the completeness, existence and valuation of the entity's ownership of cryptocurrency or digital assets, considering both those that are collateralized (e.g., stablecoins) and uncollateralized, and evaluation of the underlying blockchain, smart contracts or other technologies within the ecosystem.

Obtaining audit evidence when the entity participates in a blockchain and/or consortium to process and record transactions relevant to their financial reporting (e.g., purchasing)

The auditor's ability to establish reliance on the completeness and accuracy of the entity's information stored on a cloud, including any potential risks related to homomorphic encryption.

We believe that certain aspects of the above topics could be considered as part of an omnibus project on technology (project G). Refer to our response to Question 4.

We believe the following topics are priorities that should be addressed by the IAASB:

Cyber risk and cybersecurity: We believe that there is a need for clarity in the auditor's responsibilities related to the cyber risk and understanding the entity's attempt to govern and mitigate that risk (i.e., cybersecurity) in a manner commensurate with the entity's business model. We believe that cyber risk is one of the most significant business risks faced by entities today and that cybersecurity is of interest across many stakeholders of the entity.

## 7. Member Bodies and Other Professional Organizations

### Accountancy Europe

We believe that the impact of technology, including disruptive technologies, has not been properly addressed on a holistic basis in ISAs. Technologies used by entities in gathering and reporting financial information evolve rapidly. Consequently, audit firms adapt their methodologies and tools. In this regard, there is a strong need to assess the appropriateness of the ISAs as a whole with regards to technology and modernise relevant ISAs as necessary. The non-authoritative materials issued by the IAASB could be a suitable starting point in this respect.

We understand that it may be a challenge for the IAASB to adapt the set of ISAs based on the changes brought about by digitalisation, which has altered the nature of financial statements and annual reports. However, failure to embrace these changes on a timely basis will increase the expectation gap and be a failure to meet public interest, at a time when companies are also responsible for, and users increasingly rely on, machine-readable reporting. If the next work plan of the IAASB does not include such a work stream, this will mean any work on technology can start only in 2028 and it will unfortunately be a missed opportunity.

In addition, we observe that local/national standard-setters respond to emerging needs of their respective markets by developing local solutions if there is no globally accepted standard in a specific area. IAASB could therefore explore these solutions and determine if there is merit to pursue similar work at global level leveraging these experiences.

### Chartered Accountants Ireland (CAI)

We believe that the impact of technology, including disruptive technologies, is not properly addressed in the ISAs. Technologies used by auditors in gathering and reporting financial information evolve rapidly and audit firms are adapting their methodologies and tools in this regard. There is a need to assess the appropriateness of the ISAs as a whole with regards to technology and modernise relevant ISAs as necessary. The non-authoritative materials issued by the IAASB could be a suitable starting point in this respect.

## 9. Individuals and Others

### Anne Ramsay et al.

As noted above, we submit that digital assets and blockchain technologies are equally important as the topics identified in Table B. Without the IAASB prioritizing digital assets and blockchain technologies on a global basis, industry or local standard setting bodies will create a variety of different rules which does not serve the public interest. This project should include non-audit assurance engagements for digital assets and digital asset service providers.

Considering technology more broadly, Artificial Intelligence should be set up as its own work-stream.

#### The Need for Global Standards

The reasons for undertaking projects specific to blockchain and digital assets are compelling in our view.

Digital assets and blockchain are existing technologies that are being used worldwide and are here to stay.

For example, the global market cap for crypto assets totaled USD\$1.136 trillion as of March 1, 2023. Traditional financial services companies are exploring or currently using blockchain technology, e.g., to provide custody services or manage stablecoin reserves. In another example, Project DAMA reported recently that it successfully completed a Proof-of-Concept project.

Accounting professionals are vital to growing the digital asset ecosystem considering the following:

Industry innovators continue to build out the digital asset ecosystem on blockchain technologies while regulatory frameworks and standards are being developed.

Innovators seeking funding from investors in public and private markets require audited and non-audited financial statements respectively. Therefore, accounting professionals have a unique role in the digital asset ecosystem.

Users of financial statements and other emerging reports such as proof of reserve or internal control reports must have assurances that such engagements are performed in accordance with recognized standards and are fit for purpose. Moreover, public confidence is strengthened when those global standards are consistently applied. We also emphasize the important role that small to mid-sized accounting firms have in supporting innovation by offering audit and assurance services to start-ups and small-medium enterprises. Industry is feeling the effects of small to mid-sized accounting firms exiting the digital asset space.

For this reason, we support the IAASB's efforts to develop implementation guidance for practitioners to encourage global adoption of audit and assurance standards.

Recent market failures of key participants in the digital asset ecosystem were not confined to any one country. The impact of these failures has the potential to reverberate across borders.

The rapid growth of this industry, the growing use of smart contracts and the development of AI and other technology give rise to additional areas of audit risk and opportunity. We appreciate the challenges facing standard setters and practitioners, particularly the need to keep pace with industry innovation and everchanging business and operating environments. However, global auditing and assurance standards must address these risks (and opportunities) in a timely manner.

We also draw your attention to the practical challenges faced by industry, regulators and even audit practitioners.

Globally, lawmakers are establishing regulations over digital assets and digital asset service providers. Key elements of most regulation include audited financial statements as well as systems of controls and reporting obligations to institutional clients. These obligations are found in securities regulation, banking, and other prudential standards to name a few.

Digital asset service providers are required by regulators and prudential supervisors to perform oversight of service providers.

External auditors are required to assess whether they can rely on the internal controls of service organizations who perform custodial and record-keeping functions and to assess the quality and sufficiency of the audit evidence. For example, these needs can be addressed through a service organisation's SOC 1 Report. However, developing guidance specific to digital assets (e.g., creation and management of private keys, digital wallet configuration etc.) would be useful.

External auditors will also need to consider the additional risk factors of the underlying distributed ledger technology, the specific business model and whether to use information directly from the blockchain or to source it through intermediaries as part of their audit planning process.

Blockchain technology provides greater transparency over digital assets. However, to leverage this benefit, global standards and more thought leadership are needed. For example, we see an emerging desire by digital asset service providers to engage independent parties to prepare special purpose reports on systems and organizational controls for audiences that include crypto trading platforms, investors, and prudential regulators. Industry participants also want to provide transparency to clients e.g., through standalone "proof of reserve" reports or "platform due diligence reports".

Finally, global auditing and assurance standards will help the boards of directors and executives of innovators and public issuers to fulfill their governance, stewardship, and fiduciary obligations. The points made in the COSO Perspective Guidance Blockchain and Internal Control 2020 are still valid:

“Even while blockchain technology is evolving, the financial reporting stakeholder community can jointly work to better understand the challenges and risks, ways to remediate, and leading practices such that the potential benefits are realized.

Stakeholders must realize that adoption is likely to move forward (even given the associated risks) regardless of whether such activities occur. If efforts are not made now, the knowledge, learning, and application gap will widen, and more effort will be required later to react to the challenges with the technology and its adoption.

The benefits of blockchain specific to financial reporting reliability will be maximized only if those who understand financial reporting, internal controls, and third-party assurance are actively involved in the evolution of the blockchain ecosystem as well as related regulation and guidance.

Further, the potential benefits of blockchain to financial reporting stakeholders will be maximized only in conjunction with coupling with other technologies, such as, Artificial Intelligence and Internet of Things.”

Work has Already Started to Address this Growing Need

We acknowledge and commend the steps taken by the respective standard setting bodies listed below, including the

IAASB. However, we believe a more focussed effort to develop global standards is needed.

The IAASB’s proposed revisions to IAS 500 – Audit Evidence will address the quality and sufficiency of audit evidence including a revised definition of “audit evidence” that will require auditors to perform audit procedures on the information before it can be used as audit evidence to draw a conclusion.

We recommend that the IAASB specifically address audit evidence using blockchain data and smart contracts and to develop implementation guidance regarding its application that incorporates the work performed by other standard setters and/or auditor oversight boards. E.g., the investigation findings published by the Canadian Public Accountability Board “CPAB” in August 2022.

We urge the IAASB to involve industry technical experts in the standard-setting process; we expect these technical experts may be called upon to provide assurances around the integrity of smart contracts and blockchain data as audit evidence.

CPA Canada and the Auditing and Assurance Standards Board: published Canadian non-authoritative guidance in March 2021 Viewpoints. Applying Canadian Auditing Standards in the Crypto-Asset Ecosystem – Auditing financial statements of entities that engage with third-party service providers to transact and/or hold crypto assets.

This guidance material looks at auditing engagements from the user-auditor’s perspective, i.e., the user entity engaging with another company providing services to the user entity. Its scope is limited to crypto assets that are bought, sold, held using trading platforms for investment purposes. However, it should be expanded to include many digital assets in use today such as utility tokens, stablecoins and especially smart contracts.

The Public Company Accounting Oversight Board “PCAOB” published non-authoritative guidance in 2020 for Audits Involving Crypto Assets – Spotlight to highlight timely and relevant observations for auditors and audit committees of public entities who transact or hold crypto assets. However, it should be expanded to include many digital assets in use today such as utility tokens, stablecoins and especially smart contracts.

We observe that technology is an ongoing workstream without a distinct project in the Work Plan. We believe there are compelling reasons for prioritizing digital assets and blockchain as a distinct project like the attention given to sustainability reporting. The IAASB is in a unique position as a global standard setter to lead the work on blockchain and digital assets standards for audit and assurance. Such standards can affect how solutions are currently being built. The time is now for the IAASB to act.