

Technology Position – Introduction to Development

Objective of the Technology Position Session at the March 2024 Meeting:

To make substantial progress in shaping the IAASB's Technology Position. This will be achieved through the application of a conceptual framework, which will guide the Board in deliberating on the key components of its Technology Position.

Introduction

1. Businesses worldwide are increasingly harnessing cutting-edge technologies, including artificial intelligence, to extract valuable insights from data and transform their operations.
2. With technology evolving rapidly across diverse industries, the International Auditing and Assurance Standards Board (IAASB) will deliberate on, among other considerations, the role that international standards on auditing (ISAs) should play in fostering innovation in the audit and assurance services market. Specifically, as the Board establishes its Technology Position, it will explore whether ISAs should be more deliberate about encouraging, or even mandating under certain circumstances, the prudent utilization of technology in audits.
3. At the core of the IAASB's standard-setting activities lies a steadfast commitment to developing globally accepted and leading standards to support the consistent performance of quality audit engagements that serve the public interest. As the IAASB sets out to shape its Technology Position in 2024, the Board will be operating under a fundamental premise that technology, properly deployed and supported by appropriate safeguards, has the potential to elevate audit quality.

Technology Position Initiative

As outlined in [The IAASB's Strategy and Work Plan for 2024–2027](#) (approved at the December 2023 meeting), the Board will commence a project in the first half of 2024 aimed at establishing a Technology Position on addressing the impact of technology in the IAASB's standards, including the Board's vision and roadmap. This position will inform standard-setting and related activities during the Work Plan period.

Background

4. The most recent technology-focused session of the Board occurred in March 2023 ([Agenda Items 3 and 3-A](#)), during which the Board received an update on the activities of the Disruptive Technologies initiative since the September 2022 meeting ([Agenda Items 3 and 3-A](#)). Additionally, the Board has also deliberated on technology-related matters associated with ongoing projects, including proposed technology-related revisions to the exposure draft for proposed ISA 500 (Revised) at its September and December 2023 meetings (see [Agenda Item 4](#) and [Agenda Items 8 and 8-A](#), respectively).
5. For a comprehensive list of the IAASB's recent publications concerning technology, categorized by publication type and date, please refer to **Appendix 1** of this document.

Agenda for the Technology Position Development Session

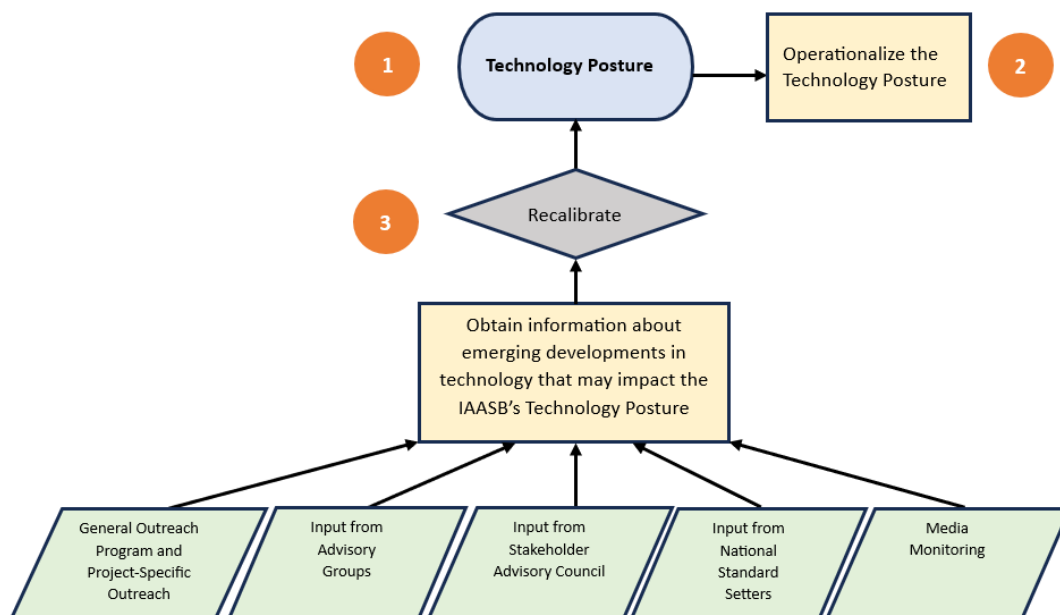
6. The session for the upcoming March meeting is divided into two parts: a public segment, which will be live-streamed on [YouTube](#), aimed at introducing the Board's Technology Position initiative, followed by a private workshop where the Board will begin to consider the critical aspects of its Technology Position.

Key Components of the IAASB's Technology Position

7. In formulating its Technology Position for 2024, the Board will benefit from using a conceptual framework. The proposed framework aims to facilitate a shared understanding among Board members regarding the key components of its Technology Position, enabling focused deliberations on the critical aspects of each component as the Technology Position takes shape. The proposed framework comprises three key components:

- ❖ **Component 1: Clear Articulation of the IAASB's Technology Posture.** This involves defining the IAASB's Technology Posture, ensuring clarity and alignment with the IAASB's strategic objectives.
- ❖ **Component 2: Approach to Operationalize the Technology Posture.** This focuses on devising strategies and actions to effectively implement and integrate the Technology Posture in the IAASB's standard-setting activities and related processes and procedures.
- ❖ **Component 3: Process for Ensuring the Technology Posture Remains Appropriate.** This involves establishing a robust process to continually evaluate and, if necessary, recalibrate the Technology Posture to ensure its ongoing relevance and effectiveness.

8. The accompanying flowchart illustrates how the key components of the Technology Position interact.



Strategic Discussion by the Board

9. During the private workshop, the Board will deliberate on the critical aspects of the first two components, while deliberation on the third component is scheduled for the June 2024 meeting. The remainder of this paper explores the critical aspects of the first two components, accompanied by

pertinent questions for the Board to consider for each component. The questions are not meant to be comprehensive and deliberations about the first component may give rise to a different set of questions (i.e., different from the questions included in this agenda item) for the second component.

Further information about the private workshop will be provided separately to Board members.

Component 1: Clear Articulation of the IAASB's Technology Posture

10. The IAASB's Technology Posture serves as a guiding paradigm for the Board's standard-setting initiatives and related activities over a Work Plan period. As the Board looks to articulate a Technology Posture for the 2024-2027 Work Plan period, it is useful for the Board to first articulate its current Technology Posture such that it can then assess its ongoing suitability.
11. Based on the feedback gathered from the survey distributed to Board members ahead of the upcoming March meeting, a majority agreed that the following statement accurately reflects the IAASB's current Technology Posture:

The IAASB's Technology Posture, as it develops or revises the ISAs, is *not to require* but rather *to acknowledge and support* the use of technology in audits through guidance integrated in application material of the ISAs.

This posture has informed the IAASB's recent revisions to standards such as ISA 220 (Revised)¹, ISA 315 (Revised 2019)², ISA 600 (Revised)³, as well as in ongoing projects, including proposed revisions to ISA 240⁴, ISA 500⁵ and ISA 570.⁶

12. This posture has been labeled by some observers as "technology agnostic," reflecting their perception that the IAASB refrains from mandating or actively promoting in the ISAs the use of technology in audits.
13. As the Board evaluates the ongoing suitability of its current Technology Posture, it should consider the following:
 - a) How entities are, or are expected to be, integrating the use of technology in their business processes and the related financial reporting implications.
 - b) How auditors are, or are expected to be, using technology in their audits.
 - c) The growing expectation that auditors use technology to enhance the quality of their audits.Each of these considerations will be explored next.

How Entities Are Using Technology

14. The primary focus of auditing standards regarding the use of technology pertains to the technology utilized by auditors, rather than by entities themselves. However, the manner in which entities incorporate technology into their business processes can influence whether auditors also need to

¹ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁴ Refer to the [exposure draft](#) of Proposed ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁵ Refer to the [post-exposure draft version](#) of Proposed ISA 500 (Revised), *Audit Evidence* considered by the Board at the Dec. 2023 meeting

⁶ Refer to the [exposure draft](#) issued of Proposed ISA 570 (Revised 202X), *Going Concern*

leverage technology in their audits. This highlights the importance of understanding how entities utilize technology for the IAASB. Recognizing and comprehending this connection is crucial for the IAASB as it shapes its Technology Posture.

15. The IAASB's Disruptive Technologies initiative has brought to light various technologies that are being developed by entities and auditors, including insights about their relative stages of development (see paragraphs 4 and 5). As part of that initiative, the IAASB has been monitoring the significant recent advancement of artificial intelligence (AI) and its current or imminent adoption by entities. Of particular interest is generative AI, including its application in Large Language Models like the widely recognized ChatGPT.
16. Preliminary evidence gathered by the IAASB indicates that the integration of generative AI into entities' operations, which affects their financial reporting, is still at an early phase. Nevertheless, there is a prevailing expectation that entities will increasingly integrate AI and other sophisticated technologies into their business processes. Such integration is anticipated to fundamentally alter their financial reporting risk profiles.
17. A critical consideration for the Board is whether the utilization (or expected utilization) by entities of AI and other sophisticated technologies is giving rise to a new class of risks of material misstatement and whether these risks can be effectively addressed with traditional audit techniques, commonly referred to as "manual audit procedures." Specifically, as the Board develops its Technology Posture, it should consider whether there are characteristics about the use of technology by entities that may, under certain circumstances, necessitate auditors to utilize technology of their own to respond to those risks.

How Auditors Are Using Technology

18. In late 2016, the IAASB sought feedback from stakeholders regarding the implications of the growing use of technology in audits, with a focus on data analytics tools. Based on the feedback received⁷, it was determined that the principles outlined in the ISAs were resilient enough to accommodate how auditors were utilizing, or expected to utilize, technology in their audits.
19. However, it is important to recognize that this feedback was gathered several years ago. Therefore, it is prudent for the Board to consider whether advancement in the capabilities associated with technology used in audits, or those expected to be used in the near future, may threaten the alignment between how audits are (or will be) conducted in practice and how the ISAs envision audits are performed.
20. For example, the use of sophisticated AI applications in audits could blur the lines between what have traditionally been regarded as distinct processes in the audit: the process of designing and performing audit procedures to identify and assess risks of material misstatement and the process of designing and performing procedures to respond to assessed risks. In this example, the utilization of AI may enable these processes to be carried out simultaneously, thereby creating confusion about how to apply ISA 315 (Revised 2019) and ISA 330⁸, respectively.

⁷ For more information, refer to the [Feedback Statement](#) prepared by Staff in January 2018 about the feedback received from stakeholders to request for information: [Exploring the Use of Technology in the Audit, with a Focus on Data Analytics](#) published in September 2016.

⁸ ISA 330, *The Auditor's Responses to Assessed Risks*.

The Growing Expectation That Auditors Use Technology in their Audits

21. There is a growing expectation that auditors use technological tools to enhance the quality of audits. Just as this paper was being developed, Accountancy Europe published an Information Paper titled ["5 Ways Professional Accountancy Organisations Support the Technological Transformation of Auditing."](#) A key takeaway from the Information Paper was highlighted on the second page as follows:

Society and businesses are making use of new technologies. In parallel, the accountancy profession, including auditors, must innovate as well to respond to the market's needs, continue playing its public interest role and remain attractive.

22. Paragraph A63 of ISA 220 (Revised) concisely summarizes some of the opportunities and challenges of using technology in audits:

The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technological tools may allow the auditor to more effectively and efficiently manage the audit. Technological tools may also allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights, identify unusual trends or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional skepticism. Technological tools may also be used to conduct meetings and provide communication tools to the engagement team. Inappropriate use of such technological resources may, however, increase the risk of overreliance on the information produced for decision making purposes, or may create threats to complying with relevant ethical requirements, for example, requirements related to confidentiality.

Questions for the Board relating to Component 1

- a) Should the IAASB's Technology Posture cover more than the impact of technology on the ISAs? If so, what else should be covered (e.g., assurance engagements on digital reporting tagging, ISRE 2410)⁹?
- b) Is the IAASB's current Technology Posture, specifically the posture in the ISAs that pertains to the use of technology in audits, still appropriate?
- c) What are some alternative Technology Postures that are worth considering?
- d) How are entities integrating, or expected to integrate, more sophisticated technologies, including AI, in their business processes and how is that changing their financial reporting risk profiles? What factors should auditors consider when determining whether they will need to use technological tools to address these new risks?
- e) What are the types of innovations that are occurring, or expected to occur, to audits due to the use by auditors of technological tools and is that causing a misalignment to the ISAs? In what areas and in what ways?
- f) What are the risks to the audit and assurance services market if the use of technology were to become mandated under certain circumstances?

⁹ International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Statements Performed by the Independent Auditor of the Entity*

Component 2: Approach to Operationalize the Technology Posture

23. Following the Board's deliberations on the IAASB's Technology Posture, the Board's focus will shift to deliberating on how to operationalize this posture. This discussion will revolve around devising strategies and actions to effectively implement and integrate the Technology Posture into the IAASB's standard-setting activities and related processes and procedures. For instance, if the Board decides that the Technology Posture should be more deliberate about encouraging, or even requiring under certain circumstances, the use of technology in audits, it will deliberate on the most effective approach to operationalize this new posture.
24. A key consideration in determining the approach is whether it should be centralized or decentralized. For instance, a centralized approach may focus on dealing with technology in the ISAs more holistically (e.g., a project on revisions across the suite of ISAs, with ongoing centralized support for related activities such as non-authoritative guidance). A decentralized approach could, for example, entail a specific focus on the impact of technology at the project level as individual standard-setting projects are undertaken (i.e., technology would be a key consideration in taking projects onto the IAASB's Work Plan).
25. Each approach has its advantages and drawbacks. A decentralized approach may offer greater agility but may sacrifice the coherence of the operationalization of the Technology Posture in the ISAs. A centralized approach, on the other hand, would ensure coherence in operationalization but may come at the expense of timeliness.

Questions for the Board relating to Component 2

- a) What is the most effective approach to operationalize the Board's Technology Posture?
- b) How could the IAASB's best utilize its "toolkit" to operationalize its Technology Posture (e.g., information gathering and research activities, full-scope development or revision of standards, narrow-scope maintenance of standards, and implementation support activities, including non-authoritative guidance)? See also the [IAASB's Framework for Activities](#).
- c) What is the optimal set of actions for the Board to take to operationalize its Technology Posture?

These and other questions will be shaped by the Board's deliberations on Component 1, above.

Component 3: Process for Ensuring the Technology Posture Remains Appropriate

26. As described in paragraph 9, the critical aspects of component 3 will be deliberated during the June 2024 meeting.

Appendix 1

Recent Technology-Related Publications by the IAASB, Ordered by Type of Publication and Publication Date

Technology-related publications	Link to content	Date
Addressing Exceptions & Performance Materiality When Using ATT	FAQ	Feb. 2023
Audit Planning When Using ATT	FAQ	Dec. 2021
Addressing the Risk of Overreliance on Technology	FAQ	Mar.2021
Use of ATT When Assessing Risks of Material Misstatements	FAQ	Nov. 2020
Using ATT in Performing Audit Procedures	FAQ	Sept. 2020
Audit Documentation When Using ATT	FAQ	Apr. 2020
Internet of Things Technologies	Market Scan	May 2023
Digital Assets	Market Scan	Mar. 2023
Robotic Process Automation	Market Scan	Jan. 2023
Homomorphic Encryption	Market Scan	Oct. 2022
Natural Language Processing	Market Scan	Jun. 2022
Artificial Intelligence Primer	Market Scan	Mar. 2022
API Access	Market Scan	Jan. 2022
Data Standardization	Market Scan	Oct. 2021
How Technology Fits into the IAASB's Current Projects	2nd Tech Talk	Nov. 2019
How Technology Fits into the IAASB's Current Projects	1st Tech Talk	May 2019
Technology Workstream Plan	Workstream Plan	Aug. 2019
Exploring the Growing Use of Technology in Audit	Feedback Statement	Jan. 2018
Exploring the Growing Use of Technology in Audit	Request for Info.	Sept. 2016
Data Analytics Project Update	YouTube	Feb. 2017