

Preliminary Drafting for Placing the Description of Automated Tools and Techniques (ATT) in the Quality Management Standards

This Agenda Item includes preliminary drafting for placing the description of ATT in the quality management standards, i.e., in ISQM 1¹ and ISA 220 (Revised).² The proposed changes from extant³ are shown in mark-up.

ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Requirements

...

Resources

32. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management: (Ref: Para. A86–A87)

...

Technological Resources

- (f) Appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements. (Ref: Para. A98–A101, A104)

...

Application Material

...

Resources (Ref: Para. 32)

A86. Resources for the purposes of the resources component include:

- Human resources.
- Technological resources, for example, IT applications.
- Intellectual resources, for example, written policies or procedures, a methodology or guides.

Financial resources are also relevant to the system of quality management because they are

¹ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

² ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

³ See ISA ISQM 1 and ISA 220 (Revised) as published in the IAASB 2023–2024 Handbook (Volume I), including (when applicable) conforming and consequential amendments as a result of revision of other approved ISAs which are not yet effective.

necessary for obtaining, developing and maintaining the firm's human resources, technological resources and intellectual resources. Given that the management and allocation of financial resources is strongly influenced by leadership, the quality objectives in governance and leadership, such as those that address financial and operational priorities, address financial resources.

- A87. Resources may be internal to the firm, or may be obtained externally from the firm's network, another network firm or service provider. Resources may be used in performing activities within the firm's system of quality management, or in the performance of engagements as part of operating the system of quality management. In circumstances when a resource is obtained from the firm's network or another network firm, paragraphs 48–52 form part of the responses designed and implemented by the firm in achieving the objectives in this component.

...

Technological Resources (Ref: Para. 32(f))

- A98. Technological resources, which are typically IT applications, form part of the firm's IT environment. The firm's IT environment also includes the supporting IT infrastructure and the IT processes and human resources involved in those processes:

- An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program.
- The IT infrastructure is comprised of the IT network, operating systems, and databases and their related hardware and software.
- The IT processes are the firm's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment.

- A99. A technological resource may serve multiple purposes within the firm and some of the purposes may be unrelated to the system of quality management. Technological resources that are relevant for the purposes of this ISQM are:

- Technological resources that are directly used in designing, implementing or operating the firm's system of quality management;
- Technological resources that are used directly by engagement teams in the performance of engagements; and
- Technological resources that are essential to enabling the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application.

Scalability examples to demonstrate how the technological resources that are relevant for the purposes of this ISQM may differ

- In a less complex firm, the technological resources may comprise a commercial IT application used by engagement teams, which has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (e.g., processes for authorizing access to the IT application and processing updates to the IT application).

- In a more complex firm, the technological resources may be more complex and may comprise:
 - Multiple IT applications, including custom developed applications or applications developed by the firm's network, such as:
 - IT applications used by engagement teams (e.g., engagement software used to prepare and compile engagement documentation and technological automated audit tools).
 - IT applications developed and used by the firm to manage aspects of the system of quality management (e.g., IT applications to monitor independence or assign personnel to engagements).
 - The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and IT processes and the firm's processes for managing program changes to the IT applications.

A99A. Technological resources that are used directly by engagement teams in engagements may serve multiple purposes in planning and performing the engagement. Technological resources include technological tools that facilitate the design or performance of engagement procedures in obtaining sufficient appropriate evidence.

Examples of technological tools

- IT applications that facilitate analysis of data using modeling and visualization or analysis of image processing technology.
- Engagement software built to manage workflows and assist in planning and performing engagement procedures, analyzing evidence and reaching conclusions.
- Technologies that facilitate automating aspects of engagement procedures (e.g., robotic process automation technologies), or that facilitate gathering and analysis of large amounts of information from various sources (e.g., artificial intelligence technologies).
- A spreadsheet programmed to perform functions related to designing or performing engagement procedures (e.g., data analysis or generation of information to aid decision making).

A100. The firm may consider the following matters in obtaining, developing, implementing and maintaining an IT application:

- The data inputs are complete and appropriate;
- Confidentiality of the data is preserved;
- The IT application operates as designed and achieves the purpose for which it is intended;
- The outputs of the IT application achieve the purpose for which they will be used;
- The general IT controls necessary to support the IT application's continued operation as designed are appropriate;
- The need for specialized skills to utilize the IT application effectively, including the training of individuals who will use the IT application; and
- The need to develop procedures that set out how the IT application operates.

A101. The firm may specifically prohibit the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately and have been approved for use by the firm. Alternatively, the firm may establish policies or procedures to address circumstances when the engagement team uses an IT application that is not approved by the firm. Such policies or procedures may require the engagement team to determine that the IT application is appropriate for use prior to using it on the engagement, through considering the matters in paragraph A100. ISA 220 (Revised) ⁴ addresses the engagement partner's responsibilities for engagement resources.

...

Use of Technological and Intellectual Resources (Ref: Para. 32(f)–32(g))

A104. The firm may establish policies or procedures regarding the use of the firm's technological and intellectual resources. Such policies or procedures may:

- Require the use of certain IT applications or intellectual resources in the performance of engagements, or relating to other aspects of the engagement, such as in archiving the engagement file.
- Specify the qualifications or experience that individuals need to use the resource, including the need for an expert or training, for example, the firm may specify the qualifications or expertise needed to use an IT application that analyzes data, given that specialized skills may be needed to interpret the results.
- Specify the responsibilities of the engagement partner regarding the use of technological and intellectual resources.
- Set out how the technological or intellectual resources are to be used, including how individuals should interact with an IT application or how the intellectual resource should be applied, and the availability of support or assistance in using the technological or intellectual resource.

...

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

Requirements

...

Engagement Resources

25. The engagement partner shall determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: Para. A60–A71, A74–A75, A79)
26. The engagement partner shall determine that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of

⁴ ISA 220 (Revised), paragraphs 25–28

the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: Para. A63, A72–A75)

27. If, as a result of complying with the requirements in paragraphs 25 and 26, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement. (Ref: Para. A76–A78)
28. The engagement partner shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: Para. A64–A70)

...

Application Material

...

Engagement Resources (Ref: Para. 25–28)

A60. Under ISQM 1, the resources assigned or made available by the firm to support the performance of audit engagements include:

- Human resources;
- Technological resources; and
- Intellectual resources.

A61. Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances when the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group auditor.⁵ In such circumstances, the firm's policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.

A62. A relevant consideration for the engagement partner, in complying with the requirements in paragraphs 25 and 26, may be whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles such as professional competence and due care.

...

Technological Resources

A64. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Use of Ttechnological resource~~tools~~ may allow the auditor to more effectively and efficiently manage the audit. The use of Ttechnological resource~~tools~~ may also allow the auditor to evaluate large amounts of data more easily to, for example, provide

⁵ ISA 600 (Revised), paragraph A10

deeper insights, identify unusual trends or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional skepticism. Technological ~~resourcestools~~ 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.

A64A. Technological resources that are used directly by engagement teams in engagements may serve multiple purposes in planning and performing the engagement. Technological resources include technological tools that facilitate the design or performance of engagement procedures in obtaining sufficient appropriate evidence.⁶

Examples of technological tools

- IT applications that facilitate analysis of data using modeling and visualization or analysis of image processing technology.
- Engagement software built to manage workflows and assist in planning and performing audit procedures, analyzing evidence and reaching conclusions.
- Technologies that facilitate automating aspects of audit procedures (e.g., robotic process automation technologies), or that facilitate gathering and analysis of large amounts of information from various sources (e.g., artificial intelligence technologies).
- A spreadsheet programmed to perform functions related to designing or performing engagement procedures (e.g., data analysis or generation of information to aid decision making).

A65. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm approved technological tools ~~to perform audit procedures~~ and may require the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output.

A66. When the engagement partner requires individuals from another firm to use specific ~~technological automated tools and techniques when performing audit procedures~~, communications with those individuals may indicate that the use of such ~~technological automated tools and techniques~~ needs to comply with the engagement team's instructions.

A67. The firm's policies or procedures may specifically prohibit the use of certain IT applications or features of IT applications (e.g., software that has not yet been specifically approved for use by the firm). Alternatively, the firm's policies or procedures may require the engagement team to take certain actions before using an IT application that is not firm-approved to determine it is appropriate for use, for example by requiring:

- The engagement team to have appropriate competence and capabilities to use the IT application.
- Testing the operation and security of the IT application.
- Specific documentation to be included in the audit file.

⁶ ISQM 1, paragraph A99A

A68. The engagement partner may exercise professional judgment in considering whether the use of an IT application on the audit engagement is appropriate in the context of the engagement, and if so, how the IT application is to be used. Factors that may be considered in determining whether a particular IT application, that has not been specifically approved for use by the firm, is appropriate for use in the audit engagement include whether:

- Use and security of the IT application complies with the firm's policies or procedures.
- The IT application operates as intended.
- Personnel have the competence and capabilities required to use the IT application.

...

Sufficient and Appropriate Resources to Perform the Engagement (Ref: Para. 25)

A71. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily the engagement partner may depend on the firm's related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation and maintenance programs when using firm-approved technology to perform audit procedures.

Competence and Capabilities of the Engagement Team (Ref: Para. 26)

A72. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Expertise in specialized areas of accounting or auditing.
- Expertise in IT used by the entity or ~~technological~~ automated tools ~~or techniques~~ that are to be used by the engagement team in planning and performing the audit engagement.
- Knowledge of relevant industries in which the entity being audited operates.
- Ability to exercise professional skepticism and professional judgment.
- Understanding of the firm's policies or procedures.

A73. Internal auditors and an auditor's external expert are not members of the engagement team. ISA 610 (Revised 2013)⁷ and ISA 620⁸ include requirements and guidance relating to the assessment of the competence and capabilities of internal auditors and an auditor's external expert, respectively.

Project Management

A74. In situations where there are many engagement team members, for example in an audit of a larger or more complex entity, the engagement partner may involve an individual who has

⁷ ISA 610 (Revised 2013), paragraph 15

⁸ ISA 620, paragraph 9

specialized skills or knowledge in project management, supported by technological and intellectual resources of the firm. Conversely, in an audit of a less complex entity with few engagement team members, project management may be achieved by a member of the engagement team through less formal means.

A75. Project management techniques and tools may support the engagement team in managing the quality of the audit engagement by, for example:

- Increasing the engagement team's ability to exercise professional skepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional skepticism;
- Facilitating timely performance of audit work to effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise;
- Monitoring the progress of the audit against the audit plan,⁹ including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources; or
- Facilitating communication among members of the engagement team, for example, coordinating arrangements with component auditors and auditor's experts.

Insufficient or Inappropriate Resources (Ref: Para. 27)

A76. ISQM 1 addresses the firm's commitment to quality through its culture that exists throughout the firm, which recognizes and reinforces the firm's role in serving the public interest by consistently performing quality engagements, and the importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities. ISQM 1 also addresses the firm's responsibilities for planning for resource needs, and obtaining, allocating or assigning resources in a manner that is consistent with the firm's commitment to quality. However, in certain circumstances, the firm's financial and operational priorities may place constraints on the resources assigned or made available to the engagement team. In such circumstances, these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for determining that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.

A77. The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgment and is influenced by the requirements of this ISA and the nature and circumstances of the audit engagement. As described in paragraph A11, in certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 27 and paragraph 39(c). For example, if an audit software program provided by the firm has not incorporated new or revised audit procedures in respect of recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the audit engagement.

⁹ See ISA 300, paragraph 9.

A78. If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include:

- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph A94).
- Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation.
- Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement.
- Following the firm's policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Considerations Specific to Public Sector Entities (Ref: Para. 25–28)

A79. In the public sector, specialized skills may be necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such skills may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or reporting in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing.