

April 11, 2023

International Auditing and Assurance Standards Board  
529 5th Avenue  
New York, New York 10017

**RE: The IAASB's Consultation Paper Proposed Strategy and Work Plan for 2024 - 2027**

Dear Sirs/Madames,

We are writing to provide comments with respect to the Proposed Strategy and Work Plan for 2024-2027 (the "Work Plan") of the International Auditing and Assurance Standards Board ("IAASB"). We commend the IAASB for their work and for engaging with stakeholders regarding the Work Plan.

We are a group of Canadians that includes innovators, compliance and industry professionals with experience in digital asset service providers.

We appreciate the opportunity to comment on the Work Plan and hope that you will find our comments that follow constructive. We look forward to seeing some or all of them reflected in the final Work Plan for the ultimate benefit of stakeholders.

### **Summary**

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.

We recommend the IAASB form a working committee that includes industry stakeholders with two objectives:

- To determine whether existing international auditing and assurance standards sufficiently address new areas of audit risk specific to digital assets and blockchain, e.g., stablecoins, smart contracts.
- To examine whether the various types of existing assurance reports on a service organization's controls<sup>1</sup> can fully meet the emerging needs of blockchain and digital

---

<sup>1</sup>For example, ISAE 3000 and 3402 Assurance Standards or the American Institute of Certified Public Accountants' SOC Reporting Framework, including implementation guidance specific to digital assets and blockchain for practitioners.

asset service providers and their clients (which may include retail investors).

This gap analysis would be used to identify any specific standard setting projects for the 2024-2027 Work Plan that will respond to emerging audit risks and opportunities.

### **Professional accountants have a key role in the digital asset ecosystem.**

The adoption and implementation of global standards contribute to the following:

- *Economic Growth and Innovation:* Global adoption of audit and assurance standards can help to remove certain barriers to financing and enable firms to achieve scale. Global standards that specifically address blockchain and digital assets will provide needed clarity to allow for the seamless integration of reliable and trusted systems (and data) with financial reporting, middle and back-office operations. We cannot overemphasize the important role of standards to achieve auditability, traceability, and interoperability as more and more companies incorporate digital technology into their operations<sup>2</sup>.
- *Trust in Capital and Financial Markets:* Accounting professionals bring a unique perspective on financial reporting and internal controls and should be participants in the development of regulatory, trust and governance frameworks.
- *Global Adoption and Implementation:* Global adoption of audit and assurance standards along with implementation guidance are needed to address new areas of audit risk (e.g., smart contracts) and emerging needs for special purpose reports<sup>3</sup>. By working alongside industry experts, the IAASB can respond to these needs in a timelier manner.

### **The Need for Global Standards**

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

1. 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<sup>4</sup>. Traditional financial services companies are exploring or currently using blockchain technology, e.g., to provide custody services or manage stablecoin

---

<sup>2</sup>OECD Report, *Financing Climate Futures – Rethinking Infrastructure*. Blockchain technology can be used in sustainability projects.

<sup>3</sup>Industry participants also want to provide transparency to clients e.g., through standalone “Proof of Reserve” reports or “Platform Due Diligence Reports”. Without adequate disclosure on its limitations, the user audience (which includes retail clients) may place undue reliance on such reports.

<sup>4</sup><https://www.statista.com/statistics/730876/cryptocurrency-market-value/>

reserves. In another example, Project DAMA<sup>5</sup> reported recently that it successfully completed a Proof-of-Concept project.

2. Accounting professionals are vital to growing the digital asset ecosystem considering the following:
  - a. Industry innovators continue to build out the digital asset ecosystem on blockchain technologies while regulatory frameworks and standards are being developed.
  - b. 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<sup>6</sup>.
  - c. 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<sup>7</sup> and are *fit for purpose*<sup>8</sup>. 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.
  - d. For this reason, we support the IAASB's efforts to develop implementation guidance for practitioners to encourage global adoption of audit and assurance standards.
3. 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.
4. 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

---

<sup>5</sup>Deutsche Bank and Memento Blockchain formed Project DAMA (Digital Assets Management Access) to “simplify digital fund management and asset servicing”. They were the recipients of a Proof of Concept “POC” grant from the Monetary Authority of Singapore Financial Sector Innovation and Technology. [Link Here](#)

<sup>6</sup>The ecosystem comprises innovators, users, institutional and retail investors, digital asset trading platforms as well as service providers that include exchanges, custodians, service providers, developers of smart contracts, validators, and miners etc.

<sup>7</sup>Canadian Public Accountability Board issued a practice inspection report in 2019 indicating that 7/8 audit files reviewed contained deficiencies that could lead to a restatement of audit results. Subsequently, standard setters in Canada and the U.S. issued non-authoritative guidance to address audits of the crypto-asset ecosystem.

<sup>8</sup>For example, the industry commonly engages auditing firms to do a Proof of Reserve Reports “PoR” to provide transparency to clients. For some business models, a PoR on its own won't fully address other risks, e.g., counterparty risk. This underscores the importance of global standards to address an emerging industry need.

and operating environments. However, global auditing and assurance standards must address these risks (and opportunities) in a timely manner.

5. We also draw your attention to the practical challenges faced by industry, regulators and even audit practitioners.
  - a. Globally, lawmakers are establishing regulations over digital assets and digital asset service providers<sup>9</sup>. 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.
6. 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<sup>10</sup>. Industry participants also want to provide transparency to clients e.g., through standalone “proof of reserve” reports or “platform due diligence reports”.
7. 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:

---

<sup>9</sup>In February 2023, the Canadian Securities Authorities “CSA” published changes to enhance Canadian Investor Protection. The enhanced requirements include new custody requirements. Custodians must have audited financial statements; a SOC 2 Type 1 or SOC 2 Type 2 Report or has obtained a comparable report recognized by a similar accreditation board that is satisfactory to the principal regulator. See *CSA Staff Notice 21-332*.

<sup>10</sup>National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations of the Canadian Securities Administrators sets out several requirements for registrants to have audited financial statements, systems of controls and processes to oversee service providers [Link here](#). More thought leadership is required for SOC reports for purposes of marketing to a general audience.

“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.”<sup>11</sup>

### **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<sup>12</sup>. 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<sup>13</sup>.

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.

---

<sup>11</sup>The *COSO Perspective* [page 21] [Link Here](#)

<sup>12</sup>IAASB Digital Technology Market Scan: Digital Assets (March 6, 2023) [Link Here](#)

<sup>13</sup>Investigation findings published by the Canadian Public Accountability Board in August 2022. Cpab Exchange. Auditing in the crypto-asset sector. Existence of crypto-assets held by third parties e.g., custodians [Link Here](#)

- 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*<sup>14</sup>.

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<sup>15</sup>. However, it should be expanded to include many digital assets in use today such as utility tokens, stablecoins and especially smart contracts.

**The views above inform our responses to the specific questions in the Work Plan.**

**Q1. Do you agree with our Proposed Goal, and Proposed Keys to Success and Stakeholder Value Proposition<sup>16</sup>?**

We agree with the stated proposed goal and view it as supportive of including digital assets and blockchain in the workplan.

We agree that the public interest is better served when standards are globally adopted and implemented. We observe that certain key jurisdictions (e.g., U.S., China, Germany, Japan) have only partially adopted certain IAASB standards<sup>17</sup> and encourage efforts to bring all countries together to adopt and implement global standards.

A lack of globally accepted standards coupled with risk avoidance on the part of professional accounting firms may create situations where local standard setters or industry participants develop their own methods to provide transparency to clients and investors. It is crucial to involve accounting professionals, or the result may lead to a patchwork of methods.

---

<sup>14</sup>[Third-party controls: Crypto audit considerations | CPA Canada](#)

<sup>15</sup> <https://pcaobus.org/Documents/Audits-Involving-Cryptoassets-Spotlight.pdf>

<sup>16</sup>The IAASB’s stated goal is “To serve the public interest by developing globally accepted and leading audit, assurance and related service standards enabling the performance of high-quality engagements that enhance trust in markets and evolve in a timely manner to meet rapidly changing public interest demands”.

<sup>17</sup>[IFAC International Standards 2019 Global Status Report link here](#)

**Q2. Do you agree with our Proposed Strategic Drivers as the key environmental factors that drive the opportunities and challenges impacting our ability to achieve our goal? [Pg 7-9]**

The challenge facing standard setters is the ability to keep up with the technology industry.

We agree that the impact of technology is a key driver of the opportunities and challenges impacting the ability to achieve a goal and, that it is multi-faceted. However, the absence of specific projects identified in the workplan dedicated to the technology workstream is concerning; this could mean that industry may have to wait at least 3 years before any meaningful progress is made.

New and revised standards are needed to keep pace with industry's use of technology and new products and tools that are technology based. More specifically, providing guidance to practitioners on the quality and sufficiency of audit evidence used in formulating a conclusion is key.

We agree with the statement that there is "increased and more diverse demands for our standards", as evidenced by recent comments made by U.S. lawmakers. These very public exchange of letters between U.S. lawmakers and the PCAOB underscore the heightened scrutiny over audit and assurance engagement reports specifically related to crypto and crypto servicing companies (see Appendix A). We submit that updated standards for accepting and undertaking non-audit engagements are needed to address the growing needs of digital asset companies and their clients.

**Q3. Do you agree with our key strategic objectives and our Proposed Strategic Actions (pg. 10-14)**

The absence of specific technology standard-setting projects in the Work Plan is concerning. The growing need for global standards relating to audits and assurance engagements for digital assets and blockchain cannot wait until after 2027 to be addressed.

We urge the IAASB determine whether existing auditing and assurance standards address new areas of audit risk and emerging opportunities for special reporting. Where gaps and opportunities exist, to prioritise work to develop Globally Accepted Standard(s) for Assurance for the Digital Asset sector in its 2024-2027 Work Plan similar to the Sustainability Assurance Reporting project. This work should also address a public interest need for "specified procedures" type engagements e.g., the concept of "Proof of Reserves", special purpose reports on systems and internal controls of digital asset service providers. A common global framework is needed. In addition, developing implementation guidance specific to digital assets and blockchain technologies would be useful for all participants including audit practitioners.

**Q4. Do you support the identified possible new-standard setting projects set out in Table B (see pages 20-22) within the area of audits and reviews (numbered A to K)? Please share your**

**views on individual topics, including if relevant, why certain topics may be relatively more important to you, your organization or within your jurisdiction.**

As noted above, we are concerned that the proposed Work Plan does not identify any project specific to digital assets and blockchain. We note that there is a brief mention of Technology targeted or omnibus projects in paragraph G of the Various Standards in the ISA 500 Series [page 21]. We fully support the inclusion of all Technology projects into the Work Plan, in particular digital assets and blockchain.

We believe that the work on Audit Evidence should specifically address blockchain, smart contracts and data provenance. We support the development of a *Practitioner's Implementation Guide* to specifically address the use of blockchain data particularly the relevance and reliability of data used by smart contracts.

**Q5. Do you support the identified possible new standard-setting projects as set out in Table B (below) within the area of sustainability and other assurance engagements (numbered L. and M.)? Topic L., Further Standards for Assurance on Sustainability Reporting, would involve addressing multiple topics (as part of possible multiple projects). Please provide your views about likely candidate topics for further standards**

We have no comment around sustainability and other assurance engagements.

We observe that the project list includes Standards for Assurance on Sustainability Reporting. In our view, this shows the IAASB will address areas of growing public interest that fall outside of financial statement audits.

We submit that assurance standards for digital assets are equally important to the proper functioning of financial markets using blockchain technologies and the offering of digital asset products and services. Thus, it would be in the public interest to also develop standards specific to digital assets.

**Q6. 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)**

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.

**Q7. Our proposed Strategy and Work Plan emphasizes the importance of close coordination with our sister-Board, IESBA. What are your views about whether and, if so, how coordination could be enhanced in terms of opportunities for joint or complementary actions that would better serve the public interest? Suggestions could entail standard-setting work, engagement with stakeholder groups, and improved ways of working, among others.**

We support close collaboration and coordination with IESBA especially for Artificial Intelligence.

**Q8. Are there any other matters that we should consider in finalizing our Strategy and Work Plan?**

We encourage the IAASB to form a working committee to include the broader industry groups and innovators involved in developing digital assets services and products using blockchain technologies.

We would be pleased to answer any questions you may have.

Yours truly,

Merici Young, CPA, CA  
Managing Director, Compass360 Consulting Inc.

Anne Ramsay MAcc, CPA, CA, JD, ICD.D, C.Dir  
Advisor/Director

Jane Jon, CPA, CA  
Chief Financial Officer, Ledn Inc.

Morva Rohani  
Executive Director, Canadian Web3 Council

Amber D. Scott, MBA, CIPP/C., CBP, FIS, CAMS,  
Doctoral Candidate  
Founder and CEO, Outlier Solutions Inc.

Arturo Lopez, CPA, CA, CISA  
Advisor on Technology and Digital Risk

CC: Chartered Professional Accountants of Canada  
Canadian Auditing and Assurance Standards Board

## Appendix A

The following recent events suggest that global standards for digital assets and blockchain are needed to maintain confidence in capital and financial markets:

Date	Event	Country
May 2022	<p>The collapse of the algorithmic stablecoin Terra (LUNA/USD).<sup>18</sup> The Terra Luna token was developed by Terraform Labs.</p> <p>This incident created a domino effect when Three Arrows Capital (Hedge Fund) could not repay its loans to Voyager Digital (a crypto lending company).</p>	<p>Singapore/ Korea</p> <p>Singapore, U.S.A.</p>
Nov 2022	<p>Failure of Bahamas-based crypto exchange FTX prompted a U.S. Lawmaker (Sen. Warren) to write a letter to the Chair of the PCAOB regarding “sham audits”.<sup>19</sup></p>	Bahamas
March 2023	<p>Failure of 3 U.S. regional banks prompted U.S. Lawmakers to write to the Chair of the PCAOB regarding “sham audits” once again and called on U.S. standard setters to “maintain the integrity of the auditing system”. (Sen. Warren and Sen. Wyden dated March 21, 2023<sup>20</sup>)</p>	U.S.A.

---

<sup>18</sup> <https://cointelegraph.com/news/terra-labs-luna-guard-commission-audit-to-defend-against-allegations-of-misusing-funds>

<sup>19</sup> [Link to January 2023 letter here](#)

<sup>20</sup> [Link to March 2023 letter here](#)