

Session 5: Technology-Focused Modernization of Audit and Assurance Standards

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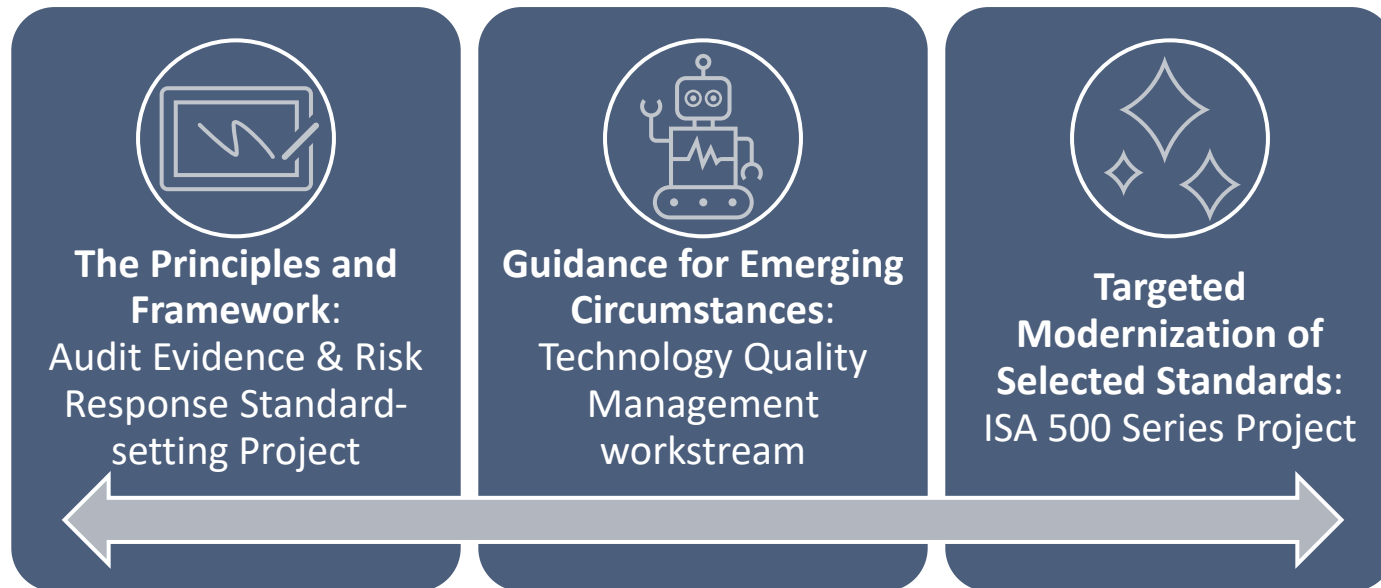
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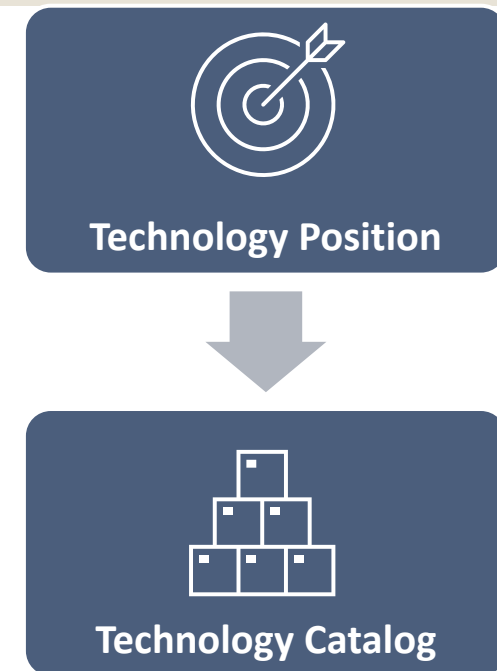


Modernizing Auditing and Assurance Standards

A Focused, Three-Pronged Evidence-Based Approach to Technology



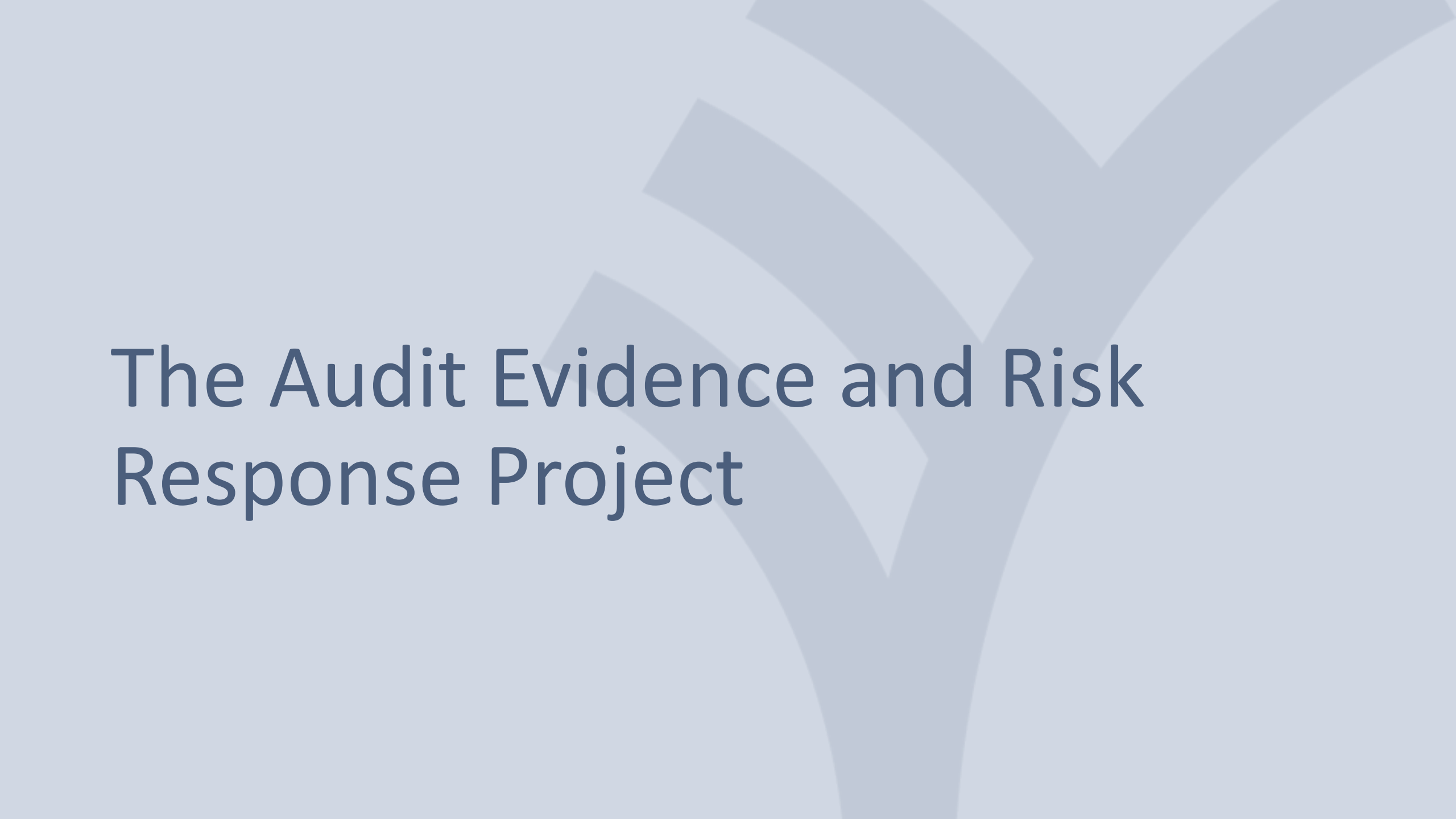
Continuous Monitoring of the Broader Technology Landscape



Modernizing Auditing and Assurance Standards

Objective of the Session:

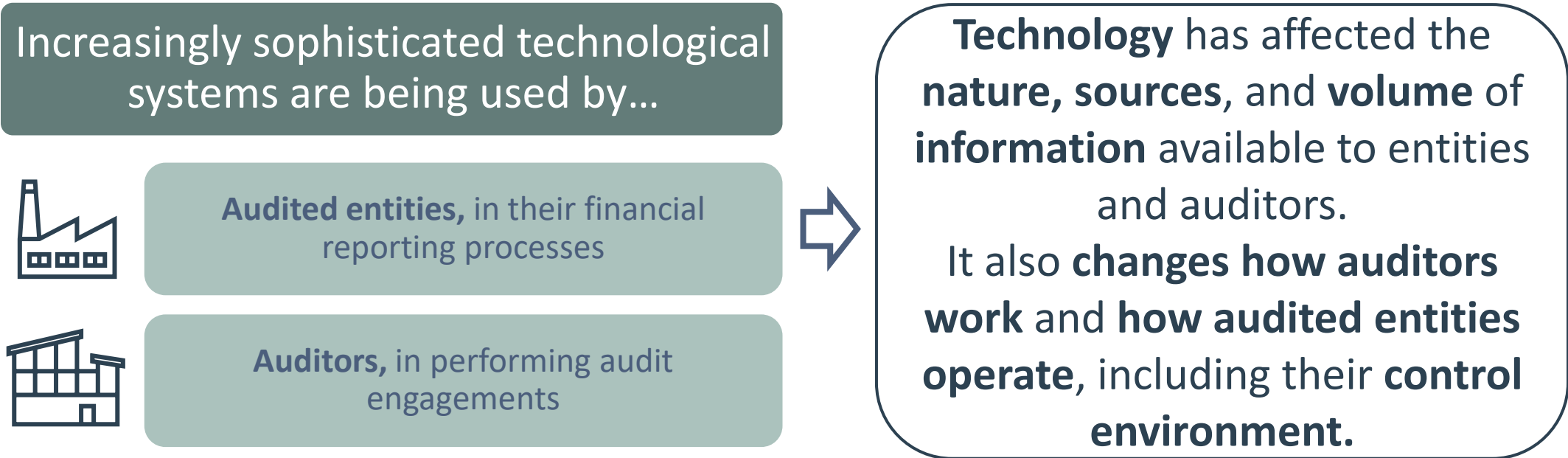
Obtain advice from SAC Members on selected matters addressed in the proposals of the Audit Evidence & Risk Response Project and selected technology-related matters in the Technology Catalog.



The Audit Evidence and Risk Response Project

A Key Driver of the Project: Technology

A CHANGED LANDSCAPE FOR AUDITS



The proposed revisions seek to **modernize the standards to reflect this reality** in a way that does **not require the use of technology** and is able to stand the test of time.

Overall Approach to Addressing Technology

NO TECHNOLOGY-SPECIFIC REQUIREMENTS

Commitment to **principles in the standards.**

- **No specific** technology-related **requirements.**
- **Testing** and **refining existing principles** to remain relevant in a technologically evolving environment.

Guidance where **necessary** for **consistent application of principles.**

- **Application Material in Proposed ISA 500 (Revised)** (Appendix 3) includes structured guidance on applying the **principles** when using technological tools.

More granular guidance *outside the standards:*
non-authoritative material



Questions for SAC members

1. The IAASB's overall approach to addressing technology

Do you support the IAASB's position to preserve technology-neutral, principles-based requirements?

This includes, at this time, not pursuing technology-related requirements for using technological tools and instead to provide, as part of the standards, application material (guidance) to help auditors apply the principle-based requirements of the standards when using technological tools.

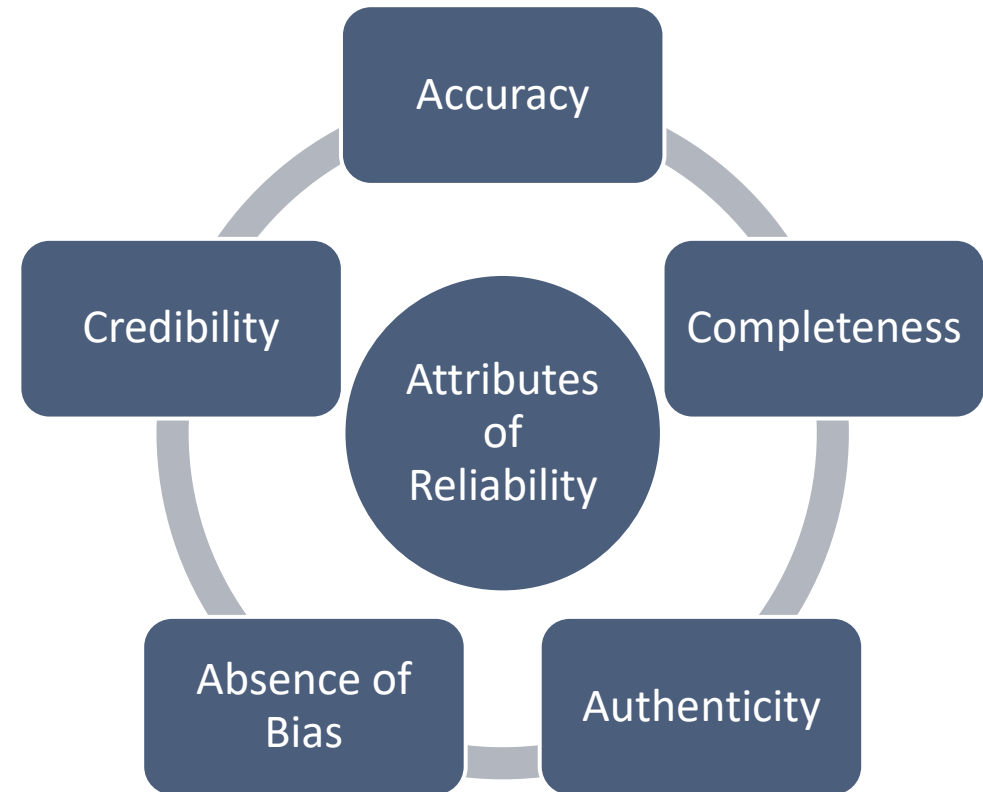
The Audit Evidence Framework

PROPOSED ISA 500 (REVISED) RECOGNIZES THE DISRUPTIVE IMPACT OF TECHNOLOGY

A Framework for Making Professional Judgments About Audit Evidence

Information becomes evidence after procedures are applied to the information.

Evaluating relevance and reliability of information intended to be used as audit evidence requires a **consideration** of the **attributes of reliability** that are of **significance** in the circumstances, to meet the intended purpose of the procedure.



A More Rigorous and Future-Proof Approach

OVERALL IMPLICATIONS OF THE NEW FRAMEWORK

The new framework fundamentally changes the auditor's responsibility regarding audit evidence

Higher Quality Audit Evidence

The focus on evaluation and the attributes of reliability will lead to more robust audit evidence

Enhanced Skepticism

The new requirements, especially around authenticity, demand a more skeptical mindset

Better Integration with the Audit

The framework better integrates the evaluation of information with the testing of internal controls

Future-Ready

The principles-based approach is designed to be scalable and applicable to all sources of information, from paper invoices to blockchain records



Questions for SAC members

2. The audit evidence framework.

Do you support the IAASB's position in introducing a modernized framework requiring the auditor to evaluate (rather than consider) the relevance and reliability of information intended to be used as audit evidence, including to accommodate scalability and proportionality in what such evaluation entails?

This includes whether the framework is sufficiently robust and adaptable to remain relevant over time.

Risk-Based Substantive Procedures

EMPHASIZING THE RISK-BASED MODEL

What are Substantive Procedures?

New definition explicitly identifying them as audit procedures designed for the **purpose** of detecting material misstatements at the assertion level. They **include**, but are not limited to, **tests of details** and **substantive analytical procedures**.

Removed requirement to perform substantive procedures for all material COTABDs **irrespective of risk**.

When are Substantive Procedures required?

- **New** explicit requirement to design and perform substantive procedures, tests of controls, or a combination of both, in responding to assessed ROMMs.
- **New** baseline requirement for designing and performing substantive procedures in responding to assessed ROMM, unless, in a narrow range of circumstance, the auditor judges that a ROMM is addressed through TOC alone.
- **Retained** the requirement to perform substantive procedures in responding to significant risks; including to require tests of details when responses to significant risks only include substantive procedures.

A Key Decision for Public Comment

REVISING THE EXTANT REQUIREMENT OF PARAGRAPH 18 RELATED TO MATERIAL COTABDS

The Framework in the **Extant** standards

ISA 315
(Revised
2019)

Perform robust risk assessment procedures supported by a holistic evaluation of the audit evidence obtained and of the professional judgments made on the basis of that evidence.

[Proposed]
ISA 330
[(Revised)]

Design and perform:
→ further audit procedures [...] responsive to the assessed ROMMs at the assertion level, for each significant COTABD; **AND**
→ Substantive procedures for each material COTABD irrespective of the assessed ROMMs

The Model in the **Exposure Draft**

ENHANCEMENTS TO THAT BASELINE:

→ **New requirement to document** the basis for determining that material COTABDs have no identified ROMMs; **AND**
→ **New application material** to support consistent auditor judgements when performing the “stand-back” evaluations

Design and perform:
→ further audit procedures [...] responsive to the assessed ROMMs at the assertion level, for each significant COTABD; **AND**
→ substantive procedures in responding to assessed ROMMs, unless, in a narrow range of circumstance, the auditor judges that a ROMM is addressed through TOC alone



Questions for SAC members

3. Substantive procedures.

Do you agree with the Board's position to reinforce the risk-based audit approach by recognizing that a robust risk assessment process should be sufficient to determine where substantive procedures are necessary, without a separate requirement to perform substantive procedures irrespective of the assessed risks?

Addressing Internal Controls

STRENGTHENING AUDITORS' WORK ON CONTROLS IN RESPONSE TO CHANGES IN ENTITIES' INTERNAL CONTROLS

Entities' increased use of technology may increase entities' design, implementation, and operation of robust automated controls, to prevent, or detect and correct, material misstatements....



Audit evidence about the **operating effectiveness** of robustly designed and implemented **controls** may be at least as **persuasive** than that obtained from substantive procedures.



Proposals in Exposure Draft intend to **support auditor's decisions about testing controls** and **facilitate the performance of tests of controls**.

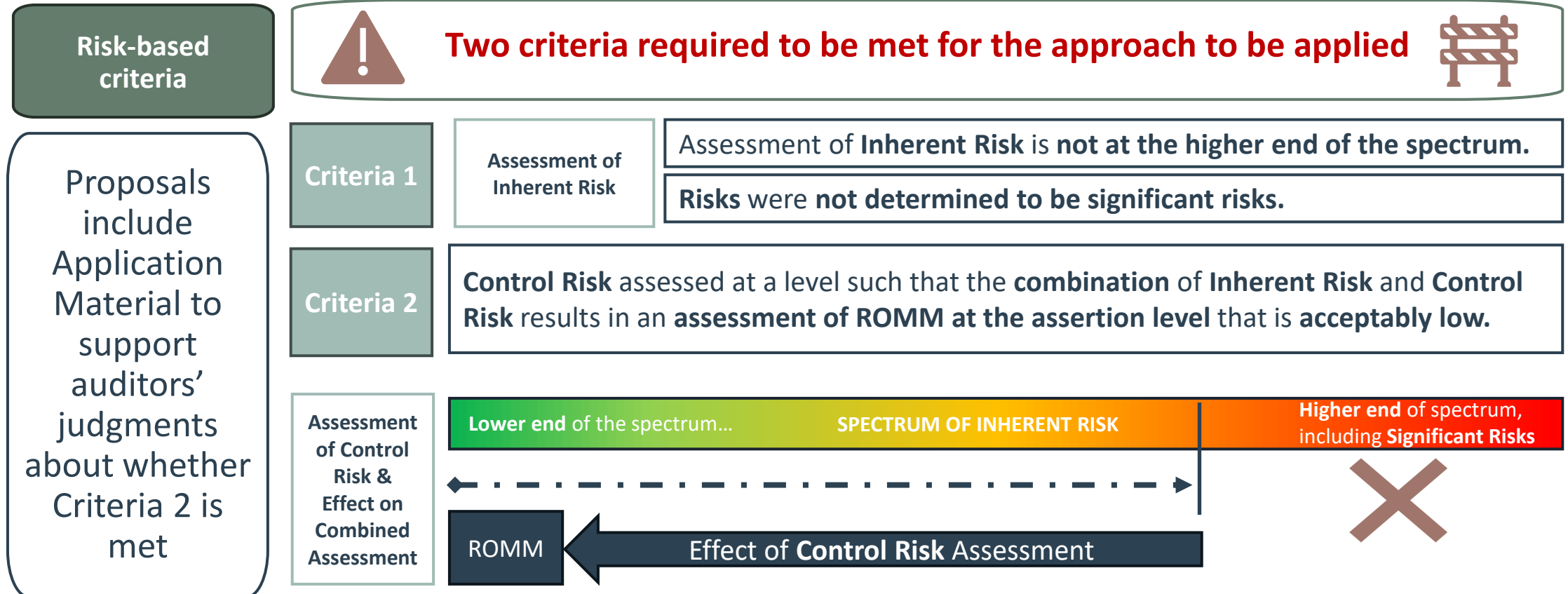
Making explicit that tests of controls may in certain circumstances be used to address an assertion level ROMM

Revised requirements and application material related to general IT controls

Examples of controls operating in technologies that produce variable outputs

Criteria for a Test of Controls Alone Approach

CHARACTERISTICS OF IDENTIFIED ROMM FOR WHICH THE APPROACH MAY BE APPROPRIATE





Questions for SAC members

4. Internal controls.

Do you agree with the IAASB's position that technological advancement could increase the use of tests of controls, recognizing the evolving role of automated controls in entities?

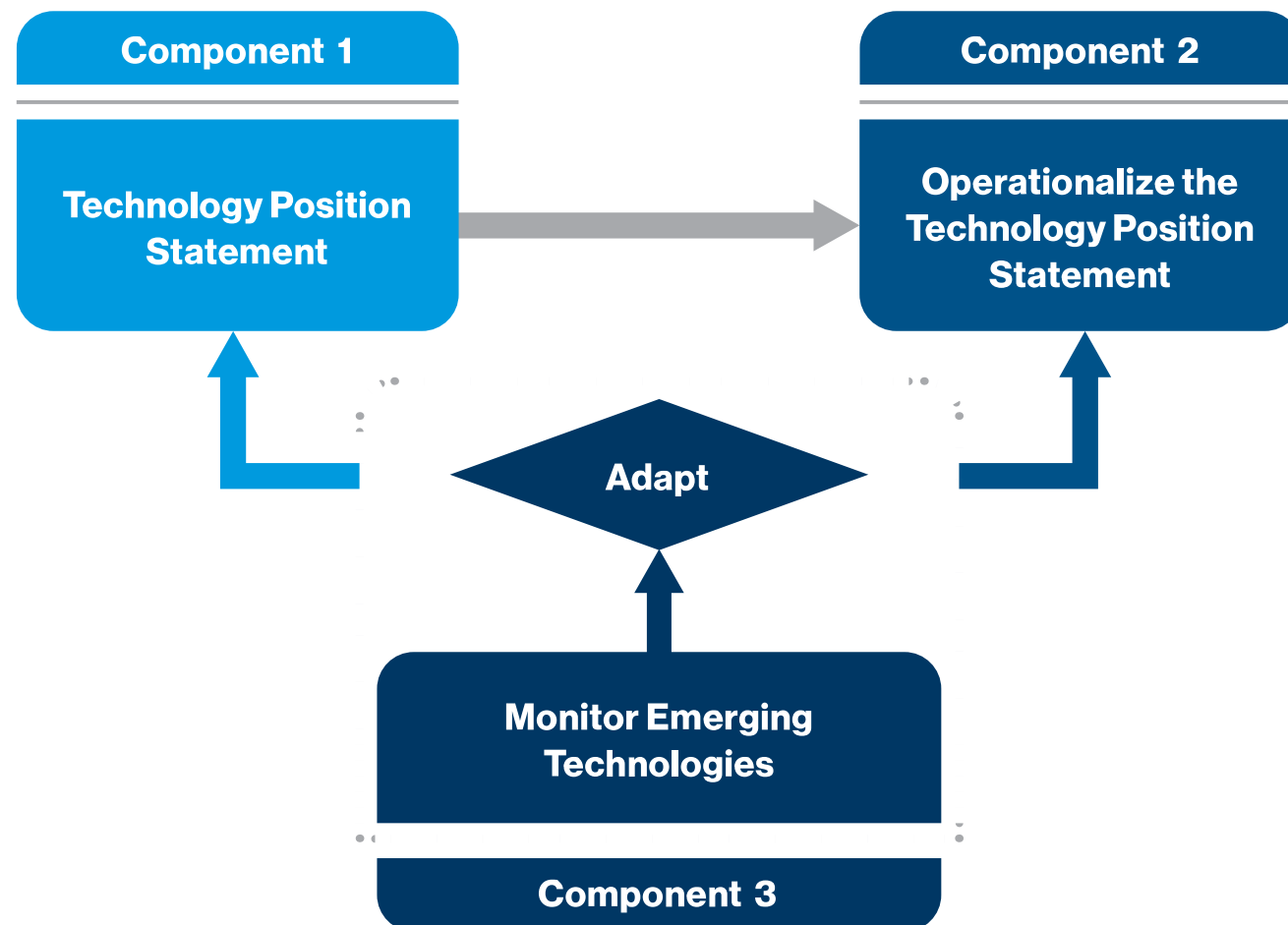
This includes the proposals to make explicit the possibility for the auditor to perform tests of controls alone for relevant assertions of a COATBD, while ensuring that such approach is used only in appropriate circumstances.



The IAASB Catalog of Technology-Related Matters

The IAASB's Technology Position

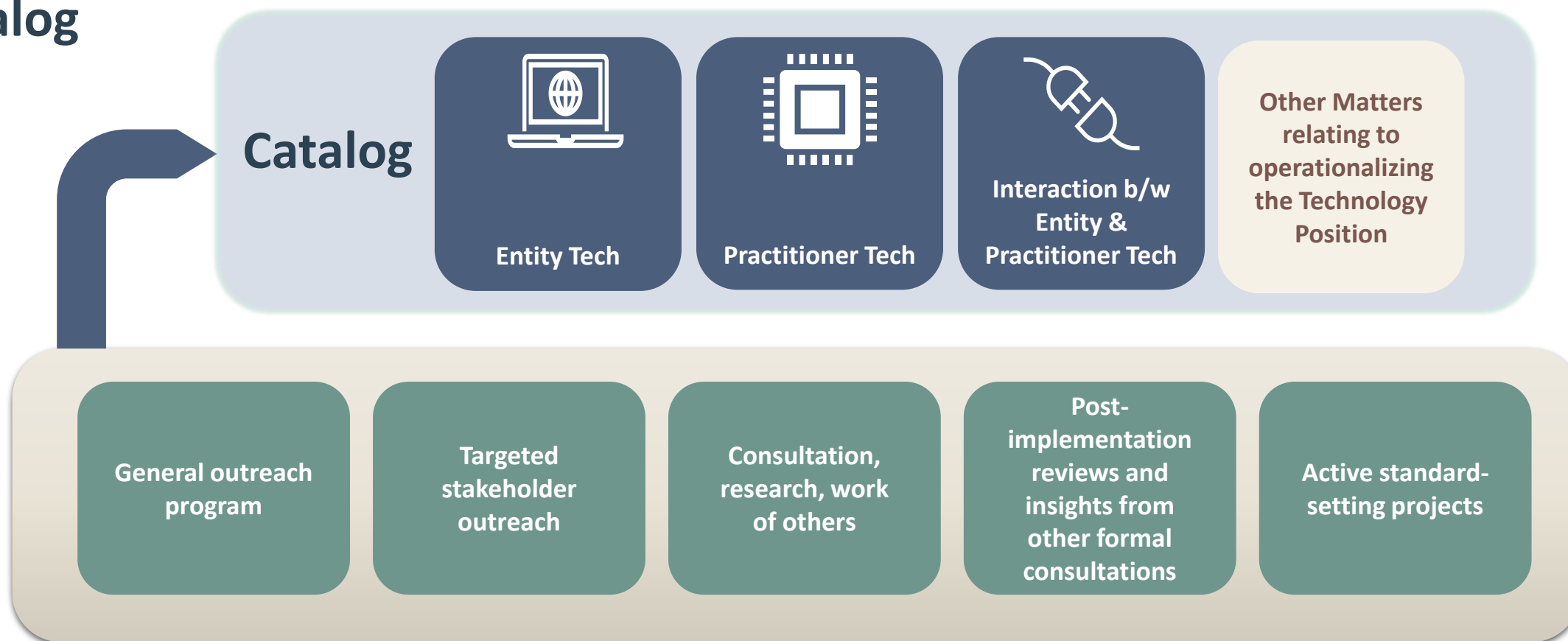
A BOLD NEW STRATEGIC DIRECTION FOR THE IAASB – APPROVED IN September 2024



Component 2: Operationalizing the Technology Position

TECHNOLOGY CATALOG – ENABLES A HOLISTIC VIEW OF THE LANDSCAPE AND INFORMED DECISION-MAKING

The Catalog Process



Component 2: Operationalizing the Technology Position

VERSION 3 OF THE TECHNOLOGY CATALOG: AN UPDATED STRUCTURE



Structural Reorganization

Three tables distinguish matters not allocated to active projects, matters allocated to active projects or workstreams, and resolved/closed matters.



Clearer Visibility about Status of Active work

Enhanced descriptions of status of matters allocated to AERR, ISA 500 Series, Other Assurance, and the Technology QM Workstream.



New Matters

The proposed additions focus on crypto-assets, cybersecurity threats affecting entities, and possible new or evolving assurance engagements.

New Matters Added to Technology Catalog

Focused on ISAs

Audits of entities in
crypto-asset ecosystem
[Priority = Low]

Cybersecurity threats
affecting entities
[Priority = Medium]

Focused on “other” assurance

AI assurance
[Priority = Medium]

Cybersecurity
assurance
[Priority = Medium]

Sustainability assurance
[Priority = Low]

NOTE: Inclusion in the Catalog does not itself commit the Board to act.

Matter 5(b): Impact on the Audit When Entities Use Service Organizations that Use Emerging Technologies

Increased use service organizations of sophisticated technologies which are enabled by AI may create challenges in both audits of financial statements of user entities (e.g., challenges in identifying, assessing and responding to IT related risks) and assurance engagements about the controls at those service organizations (e.g., ISAE 3402).

Further Information Gathering

Medium (with the possibility of moving higher)



Questions for SAC members

5. Service Organizations

As service organizations increasingly use sophisticated and emerging technologies, are the related challenges for auditors becoming more prevalent or significant? Based on your experience, do you believe this matter warrants an increase in priority from Medium to High (please provide your reasons)?

Matter 5(d): Challenges in Audits of Entities with Activities in the Crypto-Asset Ecosystem

Audits of entities with activities in crypto-asset ecosystem can be challenging due to distinctive risks and the potential need for specialized skills, tools and techniques to identify and assess those risks and design and perform appropriate procedures.

Further Information Gathering

Low



Questions for SAC members

6. Crypto-Assets

Given the significant amount of crypto-asset guidance already available in the marketplace and the mixed views received through the joint survey IAASB–IESBA Strategies and Work Plans, do you see a need for the IAASB to develop international guidance in this area? If so, what specific gaps or challenges should such guidance address?

Matter 5(e): Impact on the Audit of Increasingly Sophisticated Cybersecurity Threats Affecting Entities

Cyber incidents or breaches may affect financial reporting, internal control or the reliability and availability of information intended to be used as audit evidence and may give rise to risks of material misstatement

Further Information Gathering

Medium



Questions for SAC members

7. Cybersecurity

As AI and other technologies increase the scale and sophistication of cybersecurity threats, are there any areas where you believe the existing auditing standards may not provide an appropriate basis for auditors to identify and assess risks of material misstatement arising from such threats and respond appropriately?

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