

APPLYING ISA 315 (REVISED) TO AUDITING BLOCKCHAIN-ENABLED SYSTEMS

Financial statements are inherently representative of certain assertions by a firm's management to financial statements users. As industry adopts blockchain technology, understanding how management assertions might align with the evidence provided from distributed ledger technology and the robustness of the associated electronic audit trail will become increasingly important. Further, auditors' perceptions of distributed ledger technology will likely affect their willingness to accept engagements to audit in blockchain-enabled environments.

Notwithstanding the current status of blockchain and the various standards on audit evidence (e.g., IAASB ISA 315, PCAOB AS 1105, AICPA AU 500, and SAS No. 142), there are at least four major questions that auditors need to contend with:

1. ***Audit Evidence in Blockchain-Enabled Environments:*** How will the use of distributed ledger technology by a client affect the auditor's perceptions of management assertions and associated evidence that the auditor needs to collect when conducting a financial statement audit?
2. ***Evidence and Procedures Fit-for-Purpose:*** To what extent might audit procedures need to change to accommodate the implications of distributed ledger technology?
3. ***Robust Audit Trail:*** To what extent is the audit trail relevant, reliable and complete?
4. ***Compensating Audit Procedures:*** What alternative procedures need to be undertaken to compensate for any deficiencies in the audit trail owing to say, legacy systems that are not properly integrated with blockchain?

Learning Outcomes

The session will use ISA 315¹ as a framework to address the above questions. ISA 315 (effective December 15, 2021) establishes robust and detailed guidance for auditors to perform appropriate risk assessments in a manner that reflects the underlying nature and size of the entity. The manner in which risk assessments may be applied could change, but the underlying need for appropriate risk assessments will not change even in a novel technological environment.

In addition to obtaining insight into the revised ISA 315, participants in this session will learn the following with emphasis on practical examples:

1. New risks associated with blockchain and smart contracts and the implications for audit evidence.
2. New control features inherent in blockchain-enabled systems, including the immutability of transactions and limited self-auditing features.
3. Appropriate levels of professional skepticism applied to blockchain-enabled financial systems.
4. Identifying and assessing risks of material misstatements in blockchain-enabled systems based on ISA 315 (Revised).
5. Auditors' current perceptions and assumptions about blockchain and smart contracts and how those perceptions might affect the approach to auditing.
6. Guidance and a framework for auditing in a block-chain enabled environment.

¹ International Standards on Auditing 315. (2019, December 10). *Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and Its Environment*. <https://www.iaasb.org/publications/isa-315-revised-2019-identifying-and-assessing-risks-material-misstatement>