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August 28, 2023

Via E-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, DC 20006-2803

**Re: PCAOB Rulemaking Docket Matter No. 052**

Dear Office of the Secretary:

BDO USA, P.A. appreciates the opportunity to comment on the Public Company Accounting Oversight Board (“PCAOB” or the “Board”) *Proposed Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form* (the release).

We are supportive of the Board’s overall objectives of improving audit quality and enhancing investor protection by clarifying and strengthening requirements in the existing standards related to aspects of designing and performing audit procedures that involve technology-assisted analysis. Our comments and suggestions are outlined by topic in this letter.

**A. Differences Between Tests of Details and Analytical Procedures and Appropriate Disaggregation or Detail of Information**

We support the Board’s objectives of clarifying the difference between the terms “tests of details” and “analytical procedures” in the proposed amendments. We find the proposed amendments to paragraphs .13 and .21 of AS 1105 to be clear and appropriate with one exception, where the language in the proposed amendments states that “*analytical procedures generally do not involve evaluating individual items included in an account or disclosure* [emphasis added], unless those items are part of the auditor’s investigation of significant differences from expected amounts.”<sup>1</sup>

Based on our experience, audit procedures using technology-assisted analysis enable the auditor to: (i) analyze large volumes of transactions at an individual item or transaction level within a population (e.g., an account or class of transaction), and (ii) examine the company’s recorded transactions to other related information from a variety of sources that are both internal and external to the company. Such procedures are capable of providing audit evidence that can be used to:

- provide a basis for the auditor’s identification and assessment of risks of material misstatement;

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<sup>1</sup> See proposed amendments to AS 1105.13 and .21



- provide corroborative evidence for assertions about classes of transactions or account balances; and
- support the auditor’s reliance on the completeness and accuracy of financial information used in the performance of other audit procedures.

As noted in the release “[t]he proposed amendments are principles-based and therefore are intended to be adaptable to the ever-evolving nature of technology.”<sup>2</sup> To ensure that the proposed amendments remain relevant and adaptable to the evolving capabilities of technology-assisted analysis in practice, we suggest the following revisions to the proposed AS 1105.13 and .21.

Suggested language to be added is shown in boldface underlined italics and the suggested language to be deleted is shown in strikethrough.

*.13 Audit procedures can be classified into the following categories:*

- a. Risk assessment procedures, [footnote excluded] and*
- b. Further audit procedures, [footnote excluded] which consist of:*
  - (1) Tests of controls, and*
  - (2) Substantive procedures, including tests of details and substantive analytical procedures.*

*Note: A test of details involves performing audit procedures with respect to individual items included in an account or disclosure, whereas analytical procedures ~~generally do~~ **may not necessarily** involve evaluating individual items included in an account or disclosure, ~~unless those items are part of the auditor’s investigation of significant differences from expected amounts~~ **depending on the objective of the audit procedure.** [footnote excluded]*

*.21 Analytical procedures consist of evaluations of financial information made by an analysis of plausible relationships among both financial and nonfinancial data that can be external or company-produced. Analytical procedures also encompass the investigation of significant differences from expected amounts. Unlike tests of details, analytical procedures ~~generally do~~ **may not necessarily** involve evaluating individual items included in an account or disclosure, ~~unless those items are part of the auditor’s investigation of significant differences from expected amounts~~ **depending on the objective of the audit procedure.** [Footnote excluded]*

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<sup>2</sup> See page 5 of the release.



## **B. Responsibilities When Using Audit Evidence for More Than One Purpose**

We support the proposed amendments to AS 1105.14 to specify that if an auditor uses audit evidence from an audit procedure for more than one purpose, the auditor should design and perform the procedure to achieve each of the relevant objectives. However, we believe that the proposed requirements could be further enhanced by acknowledging the exploratory and iterative nature of audit procedures that can be designed and performed using technology-assisted analysis and the cumulative nature of audit evidence obtained from performing various procedures during the audit.

Specifically, the use of technology-assisted analysis has enabled auditors to examine entire population of transactions and corroborate information at an individual transaction level across multiple sources. In our experience, such procedures are capable of providing more persuasive audit evidence than traditional audit procedures. As noted in the release, “[b]ecause of the wide variety of analyses that may be applied by the auditor, it would be impractical to anticipate what a particular investigation could entail or what information it may provide to the auditor.”<sup>3</sup>

For example, an audit procedure may be designed as a risk assessment procedure; however, the technology-assisted analysis performed as part of the procedure may provide corroborative evidence for assertions about classes of transactions or account balances or other evidence regarding the completeness and accuracy of information produced by the company that is used in the performance of other audit procedures. As noted in existing AS 1105.02, audit evidence is “*all the information, whether obtained from audit procedures or other sources [emphasis added]*, that is used by the auditor in arriving at the conclusions on which the auditor’s opinion is based.”

## **C. Investigation of Items When Designing or Performing Substantive Audit Procedures**

We are supportive of the Board’s objectives to modify the existing standards to specify the auditor’s responsibilities regarding addressing specific items identified when designing and performing substantive audit procedures. The release states that the new proposed paragraph AS 2301.37A “supplement existing direction in PCAOB standards.”<sup>4</sup> However, we believe these proposed amendments should be further clarified for the reasons described below:

- 1) The requirements in proposed paragraph AS 2301.37A appear to be consistent with the existing requirements in the standards.<sup>5</sup> For example, existing paragraphs AS 2110.74 and AS 2301.46 establish auditor responsibilities to consider contradictory

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<sup>3</sup> See page 22 of the release.

<sup>4</sup> See page 21 of the release.

<sup>5</sup> Existing requirements in AS 1215, *Audit Documentation*, AS 2110, *Identifying and Assessing Risks of Material Misstatement*, and AS 2310, *The Auditor’s Responses to the Risks of Material Misstatement*.



audit evidence and its impact on the audit, including revisions to risk assessment and modifications of planned audit procedures. As a result, it is unclear how the proposed new paragraph AS 2301.37A supplements or enhances the existing requirements in the standards.

- 2) As described in the release, “technology-assisted analysis may enable the auditor to examine all items in a population, it is possible that the analysis may return dozens or even hundreds of items within the population that meet one or more criteria established by the auditor.”<sup>6</sup> Assuming such items or transactions within a population exhibit similar characteristics, it is unclear whether the proposed amendments: (a) establish a presumptively mandatory responsibility for the auditor to test a 100% of the items or transactions within a population that meet the auditor’s established criteria for further investigation (i.e., the sub-population), or (b) enable the auditor to exercise professional judgment in determining the appropriate number of transactions or items to select and test to reach a conclusion on the sub-population. We believe it is important that the Board clarify the auditor requirements with respect to the points above.
- 3) On the other hand, if the auditor establishes appropriate criteria for selection of items for further investigation within a population as part of its substantive procedures using technology-assisted analysis, and the auditor’s analysis results in no items, it is unclear whether such scenarios could, in any circumstance, provide sufficient and appropriate audit evidence in responding to risks of material misstatement.
- 4) The discussions within Section III.C of the release (pages 20 - 23) describes the design and performance of risk assessment procedures and substantive procedures in response to risks where an auditor may establish criteria and identify and investigate specific items; however, the proposed amendments only apply to AS 2301 and the release text describes an example relating to the auditor’s risk assessment procedure in the context of applying the proposed new paragraph in AS 2301.37A. Further clarification to this section of the release would be helpful to better align the example to the proposed changes.

#### **D. Specifying Auditor Responsibilities for Evaluating the Reliability of Certain Audit Evidence**

We support the Board’s objectives to specify the auditor’s responsibilities regarding the reliability of external information maintained by the company in electronic form and used as audit evidence; however, we find various aspects of proposed AS 1105.10A to be unclear or not achievable in certain circumstances as described in more details below.

- 1) AS 1105.10 permits the auditor to perform procedures to (a) test the accuracy and

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<sup>6</sup> See page 21 of the release.



completeness of information, or (b) test the company's controls over the accuracy and completeness of information to be used as audit evidence. Similarly, AS 2305.16 permits the auditor perform either (a) or (b) above to evaluate the reliability of information used in the performance of substantive analytical procedures. However, proposed AS 1105.10A does not provide the auditor with the option to performing other auditor procedures to evaluate the reliability of external information maintained by the company in electronic form. We believe that additional clarifications to the proposed amendments are necessary to enable the auditor to perform other audit procedures (other than tests of controls) to evaluate the reliability of external information maintained by the company. We believe, in various situations, other audit procedures may be designed and performed to address the risks arising from the use of information technology (IT) and evaluating the reliability of external information maintained in the company's information system.

- 2) Subpart (b) of proposed AS 1105.10A establishes requirements for the auditor to perform tests controls (including information technology general controls and automated application controls) over the company's procedures discussed in subpart (a) of the proposed paragraph or *test the company's procedures* [emphasis added] discussed in subpart (a). The nature of the audit procedures that are required to be performed to "test the company's procedures" in accordance with the proposed requirements are not sufficiently clear.

Further, subpart (b) of proposed AS 1105.10A establishes a presumptively mandatory responsibility for the auditor to perform tests of controls (including information technology general controls and automated application controls) or test the company's procedures in all circumstances in which the company provides information to the auditor that it received from external sources. While we appreciate that in some cases, the reliability of information may only be established when the related controls including those over the company's procedures discussed in subpart (a) have been tested and determined to be operating effectively, we do not believe that tests of controls are necessary in all circumstances. We believe the auditor should be able to make an informed judgment about the reliability of the external information based on various factors. PCAOB Staff Guidance states that "Overall, as the risk of material misstatement increases, the amount of evidence that the auditor should obtain also increases. Additionally, greater relevance and reliability of audit evidence are needed to address higher levels of risk."<sup>7</sup> For example, when the information is from a credible authoritative source, the extent of the auditor's further audit procedures may be less extensive, such as corroborating the information with the source's website or published information.

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<sup>7</sup> See page 4 of [Staff Guidance - Insights for Auditors Evaluating Relevance and Reliability of Audit Evidence Obtained From External Sources](#) (October 2021)



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### Effective Date

We believe that there are certain aspects of the proposed standard and related amendments that will require additional time, beyond the proposed effective date noted in the release, to design and implement necessary changes to firm methodologies, tools, and to provide training. We recommend an effective date of audits of periods ending on or after December 15 at least one year after approval by the SEC. Therefore, assuming SEC approval occurs during 2024, we recommend the final standard be effective no earlier than for audits with fiscal years beginning on or after December 15, 2025.

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We appreciate your consideration of our comments and suggestions and would be pleased to discuss them with you at your convenience. Please direct any questions to Ashwin Chandran at 214-689-5667 ([achandran@bdo.com](mailto:achandran@bdo.com)), or James D'Arcangelo at 203-905-6234 ([jdarcangelo@bdo.com](mailto:jdarcangelo@bdo.com)).

Very sincerely,

*BDO USA, P.A.*

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