MNP LLP

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SENT ELECTRONICALLY

Via online submission: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K St. N.W.
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 052 ***– Proposed Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form*** **(PCAOB Release No. 2023-004)**

Dear Madam Secretary and PCAOB Board Members:

Thank you for the opportunity to provide input to the Public Company Accounting Oversight Board (PCAOB) on the above noted document.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include a sizable contingent of public traded entities, including Emerging Growth Companies ("EGC"), as well as small to mid-sized owner-managed businesses, credit unions, co-operatives, First Nations, not-for-profit organizations, municipalities, and government entities. We believe that we are well-positioned to provide feedback on the proposed amendments from the viewpoint of a mid-sized firm.

We have reviewed PCAOB Release No. 2023-004 ("Release") and support the PCAOB's efforts to make changes to standards to encourage the use of technology-assisted analysis and agree that the proposed changes would increase the likelihood that the auditor obtains relevant and reliable audit evidence through audit procedures that involve technology-assisted analysis. We agree that using technology-assisted analysis may enhance the effectiveness and efficiency of audit procedures and encourage auditors to obtain a more robust understanding of the controls implemented by their clients.

However, we are concerned that the PCAOB has not appropriately considered the cost that small and mid-sized accounting firms would incur in implementing changes to use technology-assisted analysis. As explained in more detail in question 16 below, these costs could be significant and may result in audits of companies performed by small and mid-sized accounting firms to be uneconomical. We suggest more robust economic analysis is needed of the potential costs in relation to benefits as they relate to small and mid-sized firms.

In addition to our overarching concern, we have identified certain specific issues with the proposal below.

Question 1: Does the description of auditors' use of technology-assisted analysis in designing and performing audit procedures accurately depict the current audit practice? If not, what clarifications should be made? Are there other aspects of auditors' use of technology-assisted analysis that we should consider?

The Release states that companies use enterprise resource planning and other information systems that maintain large volumes of information in electronic form, and that significant volumes of this information are available to auditors for use in performing their audit procedures. However, clients of small and mid-sized accounting firms may rely instead on other effective processes relative to their size to manage their operations and financial reporting, and it may not be as cost-effective or effortless for their auditors to perform technology-assisted analysis. See also our comments on costs and unintended consequences under Question 16.

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Question 2: Does the release accurately describe aspects of designing and performing audit procedures involving technology-assisted analysis where improvements to PCAOB standards may be necessary?

We believe it would be beneficial if the Release provided examples for small and mid-sized accounting firms to demonstrate how technology-assisted procedures have been used to perform substantive procedures. Insights from PCAOB's experience of how technology was used would benefit small and mid-sized accounting firms in identifying and selecting appropriate tools to help provide efficiencies and gain from the economies of technology-assisted analysis.

Question 13: We request comment generally on the baseline for evaluating the economic impacts of the proposed amendments. Is there additional information regarding auditors' use of technology-assisted analysis or are there additional academic studies that we should consider?

The focus in the Release is more concentrated towards U.S global network firms ("GNF") than it was on U.S non-affiliated firms ("NAFs"). It would be helpful for the PCAOB to consider and comment more specifically on the tools being used by NAFs as substantive audit procedures.

Question 16: Are there additional potential costs that should be considered? If so, what are they?

The Release states that companies may expect the engagement team to perform the audit with fewer firm resources.

We strongly urge the PCAOB to not include commentary that relates the greater use of technology-assisted analysis to lower audit fees.

We believe the Release mischaracterizes the significance of the costs to design, implement and operate technology-assisted analysis in audits performed by NAFs—the Release stipulates that the increase to fixed cost and variable cost would be modest for firms that do so. We believe that the PCAOB should revisit this statement and look at evidence from a larger sample of such firms to support their conclusion.

Firstly, there will be a learning curve for all firms, and including language that implies immediate cost reductions is unrealistic.

Secondly, while the costs of performing a significant volume of tests of details may decrease, the availability of engagement team members with appropriate competencies and experience to interpret the results may offset those costs.

Thirdly, a significant input to technology-assisted analysis is the data set used in the analysis. Obtaining reliable data on which to perform technology-assisted analysis at a reasonable cost may be more challenging than described in the Release.

Lastly, the costs could be significant for NAFs that either need to develop these tools themselves or through a contractor, or purchase the software. In addition, the cost of training team members in the appropriate use of the tool would not be insignificant. Moreover, these costs of implementation may not be able to be shared among the firm's entire client base or across service lines.

An unintended consequence of assuming lower audit fees in all cases could be to put pressure on audit fees such that some firms may choose to not implement technology-assisted analysis to avoid development and training costs. Another unintended consequence could be ineffective use of analytics if firms are pressured into adopting such tools before designing and implementing appropriate quality controls for their use, including appropriate training.

Other Comments

- We noted that link provided in footnote 38 to the Release does not work as intended as it directs us to a page that may have been moved, updated or deleted.
- As it reads currently, paragraph 25 of AS 1105 provides that specific items are those that have specified characteristics, such as key items or all items over a certain amount. This definition should be expanded due to the proposed changes to paragraph 21 of AS 1105, whereby specific items

would now also include items that are part of the auditor's investigation when the auditor has identified significant differences from expected amounts while performing analytical procedures.

- Paragraph 19 of the proposed amendment to AS 1105 *Audit Evidence* ("AS 1105") reads as "recalculation consists of checking the mathematical accuracy of information." We believe the word "checking" is not an audit procedure and should be amended to say "testing."
- Changes are needed to AS 2305, *Substantive Analytical Procedures* ("AS 2305) to reflect that when an auditor is performing a test that has dual objectives, such as when a test is being performed as a risk assessment procedure and as a substantive analytical procedure, the auditor should choose the objective that will result in the greatest precision in the analytical procedure. This will make AS 2305 consistent with paragraph 44 of AS 2315, *Audit Sampling,* which provides that "the size of a sample designed for dual purposes should be the larger of the samples that would otherwise have been designed for the two separate purposes."
- Clarity and guidance is also needed for how sample size will be impacted under AS 2315 when the other substantive tests directed toward the same specific audit objectives comprise analytic procedures performed using technology-assisted procedures in order to promote consistency in practice. It will encourage auditors to appropriately take into account their use of technology-assisted analysis when determining the nature and extent of other substantive procedures required to obtain sufficient appropriate audit evidence.
- Paragraph 10A of the proposed amendment to AS 1105 requires the auditor to obtain an understanding of the source of information and test controls over company's procedures by which such information is received, recorded, maintained and processed in the company's information systems, in cases when an auditor is provided with information that the company received from one or more external sources and maintains in its information systems in electronic form. The Release does not acknowledge the fact that some clients of small and mid-sized firms may not have implemented controls that can be tested. As such, it may not be possible for small and mid-sized firms to use technology-assisted procedures on their clients' data. This would put a bigger cost burden on some small and mid-sized firms as their starting point may not be from a baseline of controls or ICFR testing.

We would be pleased to provide the PCAOB with any additional information you may require regarding our comments above to assist in finding solutions that meet the needs of the financial statement users and investors.

Yours truly,

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