



Crowe LLP
Independent Member Crowe Global

August 28, 2023

By email: comments@pcaobus.org

Ms. Phoebe W. Brown
Office of the Secretary
PCAOB
1666 K Street NW
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 Ms. Brown:

Crowe LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or "the Board") proposed amendments to Auditing Standard (AS) 1105, *Audit Evidence*, AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, and related conforming amendments.

General Observations

We support the PCAOB's efforts to modernize its standards by specifically addressing aspects of designing and performing audit procedures that involve analyzing information in electronic form with technology-based tools (i.e., technology-assisted analysis). Technology-assisted analysis presents opportunities to design and execute more efficient and effective audit procedures and has the potential to increase audit quality. It is important for the PCAOB's auditing standards to provide clear requirements and guidance to auditors that support the use of technology in a manner that enhances audit quality. Generally, we believe these proposed amendments will achieve that outcome.

We commend the PCAOB on the outreach performed to date related to technology, including with the Data and Technology Task Force. As technology-assisted analysis continues to evolve and more data becomes available in electronic form, there will likely be a need for further changes to existing standards. It will be important, however, for the PCAOB standards to be scalable to both the range of audit firms using the standards and the issuers and broker-dealers that they audit and be applicable to a variety of technologies. As such, we strongly encourage the PCAOB to continue to engage with the audit profession, issuers and others to understand how auditors are using technology in their audits. In particular, it will be important for the PCAOB to understand how firms of different sizes are incorporating technology-assisted analysis into their audits so the standards continue to be applicable to all PCAOB-registered firms.

Specific Areas of Comment

Evaluating the Sufficiency and Appropriateness of Audit Evidence

As noted in the release, "...technology-assisted analysis could be used in a variety of audit procedures, including risk assessment and further audit procedures [and] an audit procedure that involves technology-assisted analysis may provide audit evidence for more than one purpose..." The proposed amendments, however, maintain the distinction between risk assessment procedures, tests of details, and substantive analytical procedures. We recognize that the proposed amendments are focused on providing clarity regarding the use of technology-assisted analysis within the existing framework in the PCAOB standards; however, we believe there is an opportunity for the PCAOB to strengthen its standards by focusing on the audit evidence provided.

Given that technology-assisted analysis may be classified as more than one type of audit procedure and can provide evidence for more than one purpose, we believe it is necessary for the auditing standards to evolve to guide auditors in evaluating the sufficiency and appropriateness of audit evidence obtained. The classification of an audit procedure as a risk assessment, test of detail or analytical procedure should be of less importance compared to the audit evidence provided by the procedures being performed. This change in the focus of the standards would further promote the auditor's evaluation of whether the evidence obtained is sufficient and appropriate to support the opinion(s) being issued.

Additionally, as technology allows auditors to perform procedures at increasingly detailed levels or new technology-assisted procedures are developed, it may become increasingly difficult to specify the type of procedure being performed. By focusing the standards on obtaining sufficient appropriate audit evidence and providing guidance on how to evaluate the evidence that a procedure provides, the standards can support high quality audits and be adaptable for future evolutions in technology.

Description of Test of Details and Analytical Procedures

Notwithstanding the comment above, we agree with the Board's proposed description of tests of details in AS 1105.13 as performing procedures with respect to individual items included in an account or disclosure. We do not, however, believe it is accurate to contrast analytical procedures with a test of details as proposed in AS 1105.13 and .21:

...analytical procedures generally do not involve evaluating individual items included in an account or disclosure...

Technology-assisted analysis allows the auditor to develop expectations at increasing precise levels, such that the auditor may be able to evaluate "individual" items when performing a procedure that has generally been classified as an analytical procedure. As noted in our comment above, it will become more difficult to classify an audit procedure as an analytical procedure or a test of details as technology develops and the nature of procedures the auditor is able to perform changes. Including this description of an analytical procedure in the standard may add to the confusion as to the type of procedure being performed and discourage auditors from performing technology-assisted analysis that appear to be both a test of details and an analytical procedure. We recommend, therefore, that the Board remove this added description of an analytical procedure from AS 1105.13 and .21.

Investigating Specific Items

We agree that the auditor's appropriate investigation of identified items is important both for identifying and assessing the risks of material misstatement and for designing and implementing appropriate responses to the identified risks. We are concerned, however, that as drafted, the proposed amendment to AS 2301.37A may result in the auditor investigating an extensive number of items that do not reasonably represent a risk of material misstatement to the financial statements.

As the release notes, when using technology-assisted analysis, the auditor may identify hundreds of items as meeting specified criteria. While the amendments would “specify considerations for the auditor’s investigation of items that meet criteria...,” it is not clear as to whether the auditor would be expected to perform testing (i.e., further investigation) on each of the items meeting specified criteria. We believe it is important that the amendments allow the auditor to apply judgment in selecting items for further investigation. Without this clarification, auditors may perform extensive testing of items that do not represent a risk of material misstatement. In addition to taking into consideration the criteria proposed in AS 2301.37A, the standard should clearly state that the auditor can use one or a combination of means to select items for further investigation. For example, depending on the characteristics of the identified items, the auditor may be able to select a representative sample and project the results to the entire population of identified items. Alternatively, the auditor may select a sample of items to test based on risk-based criteria such that the remaining items do not reasonably represent a risk of material misstatement to the financial statements. Adding this clarification to the standard is important to give auditors guidance in designing and implementing technology-assisted analysis that performs procedures over 100% of populations.

Evaluating the Reliability of External Information

The release notes that the proposed amendments are designed to address the risk that the external information maintained by the company and provided to the auditor to be used as audit evidence may be incomplete or inaccurate. To accomplish this, the proposal would include the following as paragraph 10A to AS 1105:

The company may provide to the auditor information that the company received from one or more external sources and maintained in its information systems in electronic form.^{3B} When using such information as audit evidence, the auditor should evaluate whether the information is reliable for purposes of the audit by performing procedures to:

- a. Obtain an understanding of the source of the information and the company’s procedures by which such information is received, recorded, maintained, and processed in the company’s information systems, and
- b. Test controls (including information technology general controls and automated application controls) over the company’s procedures discussed in subpart (a) of this paragraph or test the company’s procedures discussed in subpart (a) of this paragraph.

^{3B} For example, information regarding a purchase order submitted to the company by a customer or regarding cash received by the company from a customer as payment for an invoice.

It is important for the auditor to assess the reliability of information used in its audit procedures so that the auditor is obtaining relevant and reliable evidence on which to base the opinion(s). While we are supportive of emphasizing the importance of assessing the reliability of external information, we have several concerns about the proposed requirements in AS 1105.10A.

Firstly, we have concerns that the amendments appear to require the testing of controls (including information technology general controls and automated application controls). We do not believe that the proposed requirements provide the auditor with sufficient flexibility to design a risk-based audit that is appropriate for the specific issuer’s facts and circumstances. Specifically, proposed AS 1105.10A directs the auditor to “test controls (including information technology general controls and automated application controls) over the company’s procedures...” This approach appears to be a departure from how the auditor evaluates the completeness and accuracy of information pursuant to AS 1105.10 which allows the auditor to either directly test the accuracy and completeness of the information or test the controls over the accuracy and completeness of that information. We believe it is important for proposed AS 1105.10A

to provide the auditor with the ability to perform procedures to directly evaluate the reliability of external information maintained by the company in its information systems in electronic form as there may be instances where the auditor is unable to test controls, including information technology general controls, or controls are ineffective.

We also noted the proposed amendments in AS 1105.08 and 1105.10 include the phrase “where applicable” in relation to testing information technology general controls and automated application controls. This phrase is not included, however, in proposed AS 1105.10A. As described above, there may be instances in which the auditor cannot test controls over the reliability of external information. It is also not clear whether “automated application controls” would be in place over the reliability of external information in all instances, or that testing those controls would be the most effective audit approach. As such, we recommend the Board include the phrase “where applicable” in AS 1105.10A to acknowledge that testing information technology general controls and automated application controls may not be relevant in all audits:

- b. Test controls (including, where applicable, information technology general controls and automated application controls) over the company’s procedures...

Additionally, we noted the references to “the company’s procedures” and a requirement to test those procedures in proposed AS 1105.10A. As this phrase is not used elsewhere in the PCAOB standards, it is not clear what the Board intends for the auditor to test (as compared to management’s controls). This phrase also appears to create a different focus from the approach in other paragraphs of AS 1105. Rather than directing the auditor to assess the reliability of the external information (whether by testing the reliability of the external information directly or testing controls over it), the auditor’s attention is being directed at management’s processes or controls. We believe the requirements in AS 1105 should clearly and directly address testing the reliability of external information, rather than achieving that outcome through reference to the company’s procedures.

We noted proposed AS 1105.10A includes the phrase “...maintained in its information systems in electronic form.” We recommend the Board clarify that the term “information systems” in proposed AS 1105.10A is consistent with paragraph 28 of AS 2110, *Identifying and Assessing Risks of Material Misstatement* (i.e., information systems relevant to financial reporting). We believe this clarification would be useful when considering controls, including information technology general controls, that operate with respect to the external information.

Finally, we recommend that the amendments provide clear examples of external information maintained by the company in its information systems in electronic form as guidance for auditors. For example, proposed footnote 3B to AS 1105.10A provides an example of “information...regarding cash received by the company from a customer as payment for an invoice.” A company, however, may have information regarding cash receipts in the company’s ERP system, in downloaded wire transfer information, received through an EDI feed, as a few examples. It is important for the standard to provide a clear explanation for external information maintained by the company in its information systems in electronic form so that the auditor can develop a sufficient audit approach.

Requiring Test of Details to Respond to a Significant Risk

As noted in the release, existing PCAOB standards require the auditor to perform tests of details that are specifically responsive to significant risks, including fraud risks. As technology-assisted analysis become more prevalent and can be performed at increasing levels of precision, we encourage the Board to reconsider the presumption that it is unlikely that audit evidence obtained from substantive analytical procedures alone will be sufficient to respond to significant risks. We believe that the use of technology-assisted analysis may provide the auditor with sufficient and appropriate audit evidence to address significant risks and may enhance the auditor’s procedures to detect fraud.

Effective Date

We noted the PCAOB proposed that auditors would need to adopt the amendments for audits of fiscal years ending on or after June 30th of the year after SEC approval. As this could be as little as six months, we are concerned about the ability to effectively implement the proposed amendments in that short of a timeframe. Implementing the amendments will include updating methodology and related tools and developing and conducting training for the entire audit practice. In order to allow sufficient time to implement the new standard thoroughly and thoughtfully, we encourage the PCAOB to allow for at least 12 months for implementation.

We also strongly encourage the Board to take a holistic view of the standard-setting activity when evaluating an effective date. Firms will need time to evaluate and implement changes to methodologies, training, and tools for each standard that the Board adopts; to the extent there are multiple standards being implemented concurrently, firms will need to devote substantial resources to those efforts. Allowing sufficient time for the implementation period of each new standards will support firm's abilities to effectively implement the new standards.

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We appreciate the opportunity to share our perspectives on the Board's proposed amendments. We would be pleased to discuss our comments with the Board or its staff. If you have any questions, please contact Matthew Schell or Kyle Owens.

Sincerely,

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and somewhat stylized, with the "C" being particularly large and the "LLP" being more compact.

Crowe LLP