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August 28, 2023

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

Via Email to comments@pcaobus.org

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

Dear Office of the Secretary:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB's or Board's) 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* (Proposal).

We commend and support the Board for undertaking an initiative to update standards that impact auditors' use of technology-assisted analysis (TAA), especially given the increasing pervasiveness and complexity of such analyses that are being used today in audits to varying degrees. We believe that significant benefits can be realized by employing TAA on audit engagements, including, as highlighted in the Proposal, designing and performing audit procedures more effectively and efficiently, fostering continuous improvement in audit quality. Such benefits can be maximized by auditing standards that are sufficiently principles-based and promote the performance of appropriate risk-based procedures.

We respectfully submit our comments and recommendations for the Board's consideration. Please note that we have included as an Appendix to this letter our responses to certain questions posed in the Proposal.

Sufficiency and appropriateness of audit evidence

Technology-assisted analytics increasingly enable the performance of multipurpose procedures that gather audit evidence that may not neatly fit into an existing category or sub-category of audit procedures under PCAOB standards, and that exercise is only likely to grow more challenging as technology and audit procedures continue to evolve. As the Board continues to deliberate the Proposal and carve a path forward, we believe the focus should be on the sufficiency and appropriateness of audit evidence obtained, as opposed to the classification or type of procedure performed to obtain that evidence. We note that such an approach was undertaken by the AICPA's Auditing Standards Board in Statement on Auditing Standards 142, *Audit Evidence*, codified in AU-C section 500. We believe such focus would increase auditors' confidence in adopting and using TAA while appropriately addressing the related risks of material misstatement to the financial statements. We encourage the Board to consider the requirements and related guidance of AU-C section 500 because we believe those requirements would facilitate successful adoption of TAA while remaining appropriately principles- and risk-based.

We provide additional considerations regarding the sufficiency and appropriateness of audit evidence in the Appendix to our letter.

Iterative nature of audit procedures

While recognizing that an audit is dynamic and iterative, PCAOB standards, inclusive of the amended language in the Proposal, generally assume that the intent of an audit procedure is fully established upfront. In practice, however, auditors may initially design a procedure for a single purpose but ultimately discover that the evidence obtained from performing that procedure can be used for more than one purpose.

AS 2305, *Substantive Analytical Procedures* establishes that "The auditor develops such expectations by identifying and using plausible relationships that are reasonably expected to exist based on the auditor's understanding of the client and of the industry in which the client operates." We believe auditors may discover new information from the performance of an analytical procedure or other type of procedure using TAA that refines their initially developed expectations. Even further, TAA could allow auditors to both identify and develop expectations from the results of the analysis itself.

Therefore, we recommend that the final standard acknowledge that audit procedures involving TAA can be iterative in nature and that the purpose or intent of the procedure and expectations, whether explicit or implicit, may evolve while executing the analysis, resulting in multifaceted procedures.

Auditor investigation of items

We support providing greater clarity in the standards with regard to the investigation of items meeting the criteria established by the auditor but suggest that the Board provide additional guidance in this area. Specifically, the Proposal could explore situations the auditor may face when performing audit procedures covering 100% of the population using TAA. We provide detailed recommendations regarding this topic in the Appendix to our letter.

Responsibilities for evaluating the reliability of external information

Given that TAA incorporates the use of increasingly large volumes of electronic information, including data from external sources, we support the Proposal addressing the reliability of information used in the auditor's procedures. However, we are concerned that certain language introduced in the Proposal may be unclear, such as the phrase "external information maintained by the company in electronic form." The ambiguity of this terminology could cause misunderstanding and create inconsistencies in practice. We believe additional examples or guidance would help alleviate potential practical application challenges and reduce the potential for diverse practices. Refer to our detailed responses in the Appendix to our letter.

Additionally, the proposed amendments require tests of controls, inclusive of information technology general controls (ITGC) and automated application controls, over external information maintained by the company in electronic form. Requiring tests of controls in this manner could result in potential unintended consequences related to the use of TAA. For example, the proposed amendments might disincentivize auditors from utilizing TAA when the entity maintains external information because the cost and effort to tests all relevant controls may outweigh the intended benefits. Companies also might not have adequate or effective controls over such information, and the amendments as proposed imply the auditor would not be able to leverage the external information maintained by the company in such situations. We believe this creates an unnecessary difference with existing requirements; for example, in a financial statement audit, an auditor is able to perform other procedures to determine the relevance and reliability of external information, even information maintained in electronic form. Further, if ITGCs were deemed ineffective, the auditor would be unable to rely on automated application controls and would, therefore, perform other procedures over such external information. We provide suggested revisions to certain language proposed within AS 1105, *Audit Evidence* to clarify and align this content with existing requirements.

We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Audit Quality and Risk, at 404-475-0130 or Jeff.Hughes@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP

Appendix: Responses to certain questions within the Proposal

Question 3. In addition to the proposed amendments, what other requirements may need to be included in PCAOB standards to address use of technology-assisted analysis in audits?

We acknowledge and support the PCAOB's active, short-term standard-setting project related to AS 2305. With respect to this Proposal, it is important that the substantive analytical procedures (SAP) project include consideration of TAA and the interaction with the proposed amendments to AS 1105 and AS 2301.

We recommend that updates to AS 2305 reconsider the following presumptions that currently exist in the standard:

- It is unlikely that audit evidence obtained from SAPs alone will be sufficient to respond to significant risks
- SAPs alone are not well suited to detecting fraud.

We believe it is possible to design and perform an SAP to obtain sufficient appropriate audit evidence that addresses significant risks of material misstatement and therefore, encourage the PCAOB to consider further amendments to the language in AS 2305.09 that note it is "unlikely." We believe that SAPs performed using TAA could be very effective at identifying factors that can influence financial relationships and enable auditors to develop very precise expectations, whether explicit or implicit, via the use of increasingly disaggregated information, including at an individual item level. Use of advanced statistical approaches (for example, regression-based techniques) and advanced analytics that incorporate large populations of relevant and reliable external information are just two examples of factors that can facilitate the development and execution of an appropriate SAP in response to a significant risk.

We also believe that SAPs performed via TAA could be appropriately designed to detect material misstatement due to fraud. Modern analytics, including transactional-scoring models utilizing sophisticated routines and composite risk scoring at the unique journal entry level, are significantly more advanced than traditional fraud-focused analytics and are, therefore, well-positioned to detect potential fraud and management override.

Question 4. Are the proposed amendments that clarify differences between tests of details and analytical procedures clear and appropriate? If not, what changes should be made to them?

We appreciate the Board's efforts to address a topic that is often viewed as challenging. We are concerned, however, that the proposed amendments may not adequately clarify the differences between tests of details (TODs) and analytical procedures, nor fully alleviate the challenges we see in practice in this area.

Our primary recommendation would be to focus the proposed amendments on the sufficiency and appropriateness of audit evidence obtained, as opposed to the classification of the procedure performed to obtain that evidence, as that will increase auditors' confidence in adopting and using TAA while maintaining appropriate focus on addressing the related risks of material misstatement to the financial statements. We believe that some advanced analytics available today may not precisely meet one classification of procedure as currently proposed to be defined but could nonetheless provide sufficient appropriate audit evidence, considering its precision. This is why we recommend the focus be on the persuasiveness of the evidence gathered versus characterizing evidence based on the type of procedure performed.

At the same time, we understand and acknowledge the practicality of introducing a definition for TODs given the questions surrounding classification, and we support introducing such a definition. On the other hand, we believe that analytical procedures are well-understood and clearly defined currently in AS 2305.02. Therefore, we recommend that the Board exclude from the proposed TOD definition provided in the note to paragraph .13(b) of AS 1105 the language referencing and directly contrasting with analytical procedures. We also recommend parallel updates to AS 1105.21 that would remove the discussion contrasting analytical procedures and TODs and ask the Board to specifically clarify that the use of technology may enable the auditor to design and perform an analytical procedure at a disaggregated level, including individual items in an account or disclosure.

Our recommended edits to the note to paragraph 13 and paragraph 21 of AS 1105 are as follows (deletions in ~~strike through~~ and additions in ***bold italics***):

.13 ...

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 not 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. [FN 7A]~~

[FN7A] See also paragraph .21 of this standard.

.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 ***may involve developing expectations, whether explicit or implicit, at an aggregate or individual item level and*** also encompass the investigation of significant differences from expected amounts. ~~Unlike tests of details, analytical procedures generally do not 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. [FN 11 excluded]~~

Question 6. Are the proposed requirements that specify the auditor's responsibilities when using audit evidence from an audit procedure to achieve more than one purpose clear and appropriate? If not, what changes should be made to the amendments?

We are supportive of the objective of the requirements to specify the auditor's responsibilities when using audit evidence from an audit procedure intended to achieve more than one purpose. We believe our recommendations below could enhance the understandability and practicability of the proposed amendments.

As noted in the body of our letter, the standards, including the amended language in the Proposal, assume that the intent of an audit procedure is generally understood upfront, which may not always be the case in practice. For example, when using TAA to substantively test a population of transactions, the auditor may identify a sub-population of transactions that exhibit different characteristics than the rest of the population and then use that information to modify the risk assessment of the sub-population.

We believe that documenting the nature of the analysis and the results of the procedures performed would be sufficient to demonstrate the purpose(s) of the procedures and whether they had been achieved. As such, we recommend that paragraph AS 1105.14 be updated to focus on whether the audit evidence obtained from the TAA is sufficient and appropriate to achieve each relevant objective.

Finally, in order to provide additional guidance and promote consistency in practice, we suggest that the PCAOB include an example of audit evidence from an audit procedure that achieves more than one purpose. We recommend incorporating an example similar to the example provided in Exhibit A of AU-C section 500.¹

Question 7. Would the proposed amendments, that specify considerations for the auditor's investigation of items that meet criteria established by the auditor when designing or performing substantive procedures, improve the identification and assessment of the risks of material misstatement and the design and implementation of appropriate responses to the assessed risks?

While we support the Board proposing additional guidance related to the investigation of items meeting criteria established by the auditor when designing or performing substantive procedures, we believe proposed AS 2301.37A(a) through (d) are already addressed through PCAOB standards and, therefore, we believe that firms are already complying with these requirements.² We believe that the requirements proposed in AS

¹ [AICPA AU-C section 500](#) paragraph A69

² For example, when the auditor obtains evidence during the audit that contradicts the audit evidence on which the original risk assessment was based, AS 2110.74 requires the auditor to revise the risk assessment and either modify the planned audit procedures or perform additional procedures in response to the revised risk assessment (see also AS 2301.46) which is consistent with the proposed amendments to .37A bullets a, b, and d. We also believe that bullet c of the proposed amendments to paragraph .37A is addressed through the requirements within AS 2201.08 and AS 2315.26.

2301.37A would be even more effective in practice if the requirements address the following topics:

- If a procedure that addresses 100% of the population using TAA returns items within the population that meet the criteria established by the auditor, it would be acceptable to select items from that population for testing, such as by applying audit sampling.
- If a procedure that addresses 100% of the population (and appropriately addresses the risk(s) of material misstatement) using TAA returns no items within the population that meet the criteria established by the auditor, it would be acceptable to perform no additional procedures (assuming the auditor has already evaluated the relevance and reliability of the information used in the procedure). Though we believe the requirements, as currently proposed, would indicate that the procedures performed are indeed sufficient, explicit guidance to this effect would be beneficial.

Question 9. Are the proposed amendments that specify requirements for the auditor to perform procedures to evaluate the reliability of external information maintained by the company in electronic form that the auditor uses as audit evidence clear and appropriate? If not, what changes should be made to the amendments?

We appreciate the inclusion of AS 1105.10A to clarify the auditor's responsibility for external information maintained by the company in electronic form. We offer the following observations in consideration of maximizing the operability of the proposed requirement.

We are concerned about the potential ambiguity of certain terms used throughout the Proposal, in particular the phrase "external information maintained by the company in electronic form." In proposed AS 1105.10A, the phrase "maintained *in its information systems* in electronic form [emphasis added]" is used. We believe the Board intends that the use and intended meaning of "information systems" aligns with AS 2110.28, which focuses on information systems that are relevant to financial reporting. External information maintained by the company in its information systems in electronic form (for example, customer purchase order information) is typically subject to ITGCs, whereas a PDF bank statement downloaded by an employee and maintained on their local computer may not be subject to the same nature or extent of ITGCs. As such, it could be beneficial for the PCAOB to link the proposed amendments more clearly to existing terminology in AS 2110.

Additionally, we note that the proposed language in AS 1105.10A(b), which states that the auditor can "*test the company's procedures* discussed in subpart (a) of this paragraph [emphasis added]" is not consistent with terminology or phrasing used elsewhere in PCAOB standards. In contrast, AS 1105.10 permits the auditor to perform procedures to directly test the accuracy and completeness of information produced by the company. It is unclear whether the Board intends for "test the company's procedures" to provide an option similar to that described within AS 1105.10A in relation to directly performing procedures to evaluate the reliability of external information maintained by the company in its information systems in electronic form. We believe the standard should specify that it would be appropriate for the auditor to directly perform procedures to evaluate the reliability of such information in AS 1105.10A. We recommend updating AS 1105.10A(b) as follows (deletions in ~~strike through~~ and additions in ***bold italics***):

.10A ...

b. Test ~~controls~~ **the reliability of the information, which may include** (including **testing** 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.~~

We are concerned that a potential unintended consequence of a required controls-based approach is increased scope limitations in instances where either controls may not be effective or the company does not perform other procedures to evaluate the completeness and accuracy of the information. In these circumstances, it may still be possible for the auditor to independently gather audit evidence supporting that the external information is reliable. Finally, under the existing standards, determination of which controls to test is based on risk assessment. AS 2201.11 states that "[I]t is not necessary to test controls that, even if deficient, would not present a reasonable possibility of material misstatement to the financial statements."

Question 10. Are the proposed amendments that emphasize the importance of controls over information technology for the reliability of audit evidence clear and appropriate? If not, what changes should be made?

We support emphasizing the importance of controls through the proposed updates to AS 1105. Nevertheless, we are concerned that the amendments, as proposed, will require tests of controls. In particular, it appears the proposed amendments to paragraph 15 of AS 1105 imply that the auditor cannot perform procedures to establish the reliability of information if the controls are found to be ineffective. We recommend that paragraph 15 be updated to mirror the language in paragraph 8.

Additionally, we support addressing information that has been modified from its original form, whether in hard copy or in electronic form. Such transformation might introduce additional risks that could impact the reliability of information. We continue to believe that copies of documents can be sufficient unless the auditor has concerns with regard to their authenticity. We do believe the notion of "original documents" in paragraph 8 could be modernized to reflect the reality that some information and documents may exist only in electronic form (as opposed to the electronic form of the document being a copy of the original) or that a transaction may not be recorded in a physical document at all.

Question 11. When the auditor uses information produced by the company and external information maintained by the company in electronic form, should PCAOB standards require internal controls over such information to be tested and determined to be effective for such information to be considered reliable audit evidence?

We believe that PCAOB standards should not require tests of controls over external information maintained by the company in electronic form in order for such information to be considered reliable audit evidence. In some situations, internal controls over such information may not be effective or could be outside the scope of the company's internal controls over financial reporting. However, we believe auditors could still be able to

conclude that the information is reliable based on the performance of other audit procedures, which is allowed under existing standards for information produced by the entity in a financial statement audit. Therefore, we do not support the level of prescription that comes with requiring tests of controls over external information maintained by the company in electronic form.

Question 24. Would requiring compliance for fiscal years beginning after the year of SEC approval present challenges for auditors? If so, what are those challenges, and how should they be addressed?

In order for firms to adopt the updated standards appropriately and thoughtfully into their methodologies, sufficient implementation time must be given, and each project cannot be viewed individually. As the Board continues to work through the standard-setting agenda, we are concerned about firms' ability to dedicate sufficient resources within compressed implementation periods to adequately address the changes in the Board's auditing standards.

In consideration of the proposed amendments and our observations herein, we recommend an effective date of years ending on or after December 15 that occurs two years after the year of SEC approval. For example, if the SEC approves the Proposal in 2024, the amendments would be effective for years ending on or after December 15, 2026.