



July 23, 2024

By email: rule-comments@sec.gov

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: SECURITIES AND EXCHANGE COMMISSION [Release No. 34-100430; File No. PCAOB-2024-03] Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on 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:

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of US public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by US public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, US public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of US public company auditors and audits to dynamic market conditions. This letter represents the observations of the CAQ based upon feedback and discussions with certain of our member firms, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ appreciates the opportunity to share our views and provide input on the *Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form* (Final Standard or Adopting Release) adopted by the Public Company Accounting Oversight Board's (PCAOB or the Board) on June 12, 2024 (File No. PCAOB 2024 – 03) and filed with the Securities and Exchange Commission (SEC or Commission) on June 26, 2024, in Release No. 34-100430.

We support the Board's efforts to modernize existing auditing standards and the objectives of the proposed amendments to more specifically address certain aspects of designing and performing audit procedures that involve analyzing information in electronic form with technology-based tools (i.e., technology-assisted analysis).

We appreciate the efforts of the Board and PCAOB staff to address in the Final Standard the feedback provided and concerns raised by stakeholders through the comment letter process. In particular, we



CENTER FOR AUDIT QUALITY
555 13th Street NW, Ste 425 E
Washington, DC 20004

(202) 609-8120
www.thecaq.org



appreciate that the “amendments are principles-based and therefore intended to be adaptable to the evolving nature of technology.”¹

The cornerstone of evaluating audit evidence – considering its relevance and reliability – has not changed over the years, while the nature of the audit evidence is changing. Therefore, it is appropriate for the auditor to evaluate the risks related to the increased use of external information in the audit.

We bring to the Commission’s attention our concern related to the revised requirements in AS 1105.10A of the Final Standard, which significantly differs from the Proposed Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form (Proposal) and states:

Evaluating the Reliability of External Information Provided by the Company in Electronic Form

.10A The company may provide to the auditor information in electronic form that the company received from one or more external sources.^{3B} When using such information as audit evidence, the auditor should evaluate whether the information is reliable for purposes of the audit by (emphasis added):

- a. Obtaining an understanding of (i) the source from which the company received the information; and (ii) the company’s process by which such information was received, maintained, and, where applicable, processed, which includes understanding the nature of any modifications made to the information before it was provided to the auditor; **and**
- b. Testing the information to determine **whether it has been modified by the company and evaluating the effect of those modifications**; or testing controls over receiving, maintaining, and processing the information (including, where applicable, information technology general controls and automated application controls).

^{3B} Such information includes, for example, cash receipts, shipping documents, and purchase orders.

The revised language in AS 1105.10A, including the specificity in FN 3B, leads us to interpret this new requirement such that the auditor at a minimum must test every piece of external information obtained from management as audit evidence to evaluate whether it has been modified – which could be hundreds or thousands of pieces of information - received from the company in electronic form (such as all PDFs and/or screenshots of invoices, shipping documents, contracts, etc. that are uploaded to a client portal site or shared drive, sent via email, etc.). As written, there appears a presumption by the Board that all external information in electronic form obtained by management has the same risk of modification. Therefore, AS 1105.10A could be interpreted that the auditor must go directly to the source of the external information and not accept any information in electronic form by itself to be used as sufficient audit evidence. It is also unclear how the auditor may comply with the amended standard in scenarios where a manual source document may not exist (e.g., an invoice is received by the company in pdf form).

¹ Adopting Release, page 5.



The revised language in AS 1105.10A appears contradictory to AS 1105.09 which clarifies that the auditor is “not expected to be an expert in documentation authentication.” AS 1105.09 goes on to state that it is *only* “***if conditions indicate that a document may not be authentic or that the terms in a document have been modified but that the modifications have not been disclosed to the auditor, the auditor should modify the planned audit procedures or perform additional audit procedures to respond to those conditions and should evaluate the effect, if any, on the other aspects of the audit.***” We support the retention of this important language in AS 1105.09, which has not been amended.

Further, the Adopting Release states (emphasis added), “Controls over processing the information would include internal controls over *any* modifications made by the company to the information.”² This interpretation is a significant change from the Proposal that was exposed for public comment. As part of the risk assessment in their application of the COSO Framework,³ entities may not have identified the risk of modification as one representing a reasonable possibility of a material misstatement, and therefore such controls are likely not currently part of internal control over financial reporting. The current amendments as adopted by the Board results in the potential for requiring entities to design and implement controls outside of their internal control over financial reporting requirements solely for the reason of supporting the auditor’s requirements.

We presume this is not what the Board intended.

The risk of information modification is important to consider. To comply with AS 1105.10A (a) and (b), *using a risk-based approach*, we agree the auditor should perform certain procedures to assess reliability of external information.

We believe the Board’s language in its Adopting Release is important, which states:

Consistent with the proposal, we are not prescribing the nature, timing, or extent of the auditor’s procedures to evaluate the reliability of the external information. An auditor would design the procedures considering the wide variety of types of external information received by companies and differences in the processes for receiving, maintaining and, where applicable, processing such information. Further, the nature, timing, and extent of the auditor’s procedures would depend on the purpose for which the auditor uses the information whose reliability is being evaluated. In general, performing audit procedures to address the risks of material misstatement involves obtaining more persuasive evidence than in performing risk assessment procedures. ^[FN 53 omitted] Accordingly, evaluating the reliability of information used in substantive procedures and tests of controls would require more auditor effort than evaluating the reliability of information used in risk assessment procedures.⁴

We read the above language to indicate that the Board’s intent may be more consistent with our understanding and expectation that a risk-based approach is appropriate in complying with AS 1105.10A.

² Adopting Release, page 30.

³ The Committee of Sponsoring Organizations of the Treadway Commission

⁴ Adopting Release, page 32.

CAQ

To the extent our presumption and understanding are correct, and the SEC were to affirm this intent, we support approval of the Final Standard by the SEC, subject to clarification by the PCAOB. If more extensive audit procedures are now required to address the risk of modification, we believe the economic analysis has underestimated the costs to implement the final standard. Therefore, further outreach - with both auditors and preparers - and consideration would be necessary before the Commission should approve it.

We strongly encourage the Commission to address this directly, including requiring the issuance of implementation guidance to clarify the Board's intent and avoid unnecessary broad audit procedures that are not based upon identified risks.

The CAQ appreciates the opportunity to comment on the Final Standard. As the Commission continues to gather feedback from other interested parties, we would be pleased to discuss our comments or answer questions regarding the views expressed in this letter. Please address questions to Vanessa Teitelbaum (vteitelbaum@thecaq.org) or Dennis McGowan (dmcgowan@thecaq.org).

Sincerely,



Vanessa Teitelbaum, CPA
Senior Director, Professional Practice
Center for Audit Quality

cc:

PCAOB

Erica Y. Williams, Chair
George R. Botic, Board member
Christina Ho, Board member
Kara M. Stein, Board member
Anthony C. Thompson, Board member
Barbara Vanich, Chief Auditor
Martin C. Schmalz, Chief Economist

SEC

Honorable Gary Gensler, Chair
Caroline A. Crenshaw, Commissioner
Jaime Lizárraga, Commissioner
Hester M. Peirce, Commissioner
Mark T. Uyeda, Commissioner
Paul Munter, Chief Accountant