

August 28, 2023

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

Re: PCAOB Rulemaking Docket Matter No. 052

Deloitte & Touche LLP (“D&T,” “we,” or “our”) appreciates the opportunity to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on PCAOB Release No. 2023-004, *Proposed Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form* (the “proposed amendments”).

Overview

The availability of electronic information both internal and external to the company being audited is increasing and the auditor’s use of technology-assisted analysis on that information as part of the audits of the company’s financial statements and internal control over financial reporting, where applicable, continues to evolve. We are supportive of the Board’s strategic plan to modernize the auditing standards, including addressing aspects of designing and performing audit procedures that involve technology-assisted analysis in audits and taking this initial step to begin creating a comprehensive framework addressing appropriate use of technology on the audit. To that end, we recommend that, as the Board is modernizing its standards, it continues to consider the continual evolution of technology that will occur over time. We believe that the requirements in the standards should not be overly prescriptive or contain examples that may become outdated as technology continues to evolve. Examples can, however, provide helpful context to the requirements and how they are expected to be applied. For that reason, we encourage the Board to include examples in the accompanying release, or in staff guidance that can be updated as needed.

Overall, we are supportive of the proposed amendments to PCAOB Auditing Standards (“AS”) 1105, *Audit Evidence* (“AS 1105”), and AS 2301, *The Auditor’s Responses to the Risks of Material Misstatement* (“AS 2301”); however, we believe certain clarifications may be useful to avoid misinterpretation and support consistent understanding and application. In those respects, we have the following recommendations.

Classification of Audit Procedures

We appreciate the Board’s effort to describe a test of details, however, the determination or classification of the type of audit procedure may become increasingly challenging as the use of technology-assisted analysis may result in procedures that do not clearly fall into a single type of audit procedure. Although a test of details generally involves performing audit procedures with respect to individual items, with technology-assisted analysis we believe that there may also be audit procedures “performed on individual items” as part of analytical procedures, including substantive analytical procedures. For example:

- The auditor develops a visualization of the distribution of revenue transactions at a detailed level to identify outliers within the population. Even though the auditor is using transaction-level data (i.e., individual items), the analysis is an analytical procedure (as described in existing AS 1105, paragraph .21) used by the auditor to support risk assessment conclusions and is not designed to be a test of details.
- The auditor tests loan repayments by developing an expectation of the recorded amounts for individual loans (i.e., individual items) within a population. The auditor develops an expectation using monthly interest rates (as opposed to daily interest rates used by the company to record the balance). The auditor considers the procedure a substantive analytical procedure as opposed to a test of details, because the expectation is not a precise recalculation, and the auditor uses the individual loan data to develop an expectation in the aggregate for comparison to the recorded amount.

In all cases, we think that the auditor’s determination of how to classify a particular procedure is less important than the assessment of whether sufficient and appropriate audit evidence has been obtained (either to support risk assessment, or to provide the basis as to whether risks have been reduced to an acceptably low level).

Given the examples above, we suggest the Board make the following revisions to AS 1105, paragraph .13 and make conforming amendments to AS 1105, paragraph .21:

Note: A test of details involves performing audit procedures with respect to individual items included in an account or disclosure, ~~whereas analytical~~ **Analytical** procedures generally do not involve evaluating individual items included in an account or disclosure. **However, there may be circumstances in which expectations for analytical procedures are developed at the individual item level or unless when** those items are part of the auditor’s investigation of significant differences from expected amounts.

We also recommend that within the release that will accompany the final standard the Board include examples of analytical procedures designed at an individual item level (similar to the two examples above) in order to provide additional clarity regarding the application of the description within AS 1105, paragraphs .13 and .21.

In addition, we are supportive of the proposed amendments to AS 1105, paragraph .14 that clarify that the auditor can use evidence obtained from an audit procedure for more than one purpose. We suggest that the Board also clarify that the specific audit procedures referenced in paragraph .14 are not an all-inclusive list, to allow for additional types of procedures that might be used in the future with the advancement of technology-assisted analysis.

External Information Maintained by the Company in Its Information Systems

We agree with the Board’s proposal to clarify the auditor’s responsibilities to evaluate external information maintained by management in its information systems in electronic form. However, as further described below, aspects of the proposed amendments in AS 1105 risk being inconsistently applied and would appear to limit the procedures that may be performed by the auditor to evaluate the reliability of external information.

While we are supportive of the Board’s efforts to emphasize the importance of controls over information used as audit evidence, we do not believe that testing information technology general controls (ITGCs) and automated application controls should be required in all cases, except when substantive procedures alone cannot provide sufficient appropriate audit evidence as described in AS 2301, paragraph .17. For example, in instances in which there are no ITGCs or automated application controls over the information in the company’s information system, a company may have effective manual controls in place to address the accuracy and completeness of the information (e.g., controls that reconcile the information back to the original external source).

In addition, it is unclear what is intended by the proposed amendment to “test the company’s procedures,” and how it would differ from testing the company’s controls. In instances in which controls are not present or are

ineffective, and the company does not perform procedures over the information, we believe auditors may nevertheless obtain evidence over the reliability of information independent of the company's controls or procedures (i.e., by testing the accuracy and completeness of the information, consistent with the requirements in AS 1105, paragraph .10). As drafted, the proposed requirement would appear to preclude this alternative.

For example, in preparing the financial statements, the company uses mortality tables obtained from an external source. The mortality tables are manually input into the company's information system in electronic format by company personnel. Once in the company's information system, there are no controls or other procedures performed by the company to maintain or protect the information from being modified. The auditor uses these mortality tables in performing audit procedures.

The auditor would not be able to apply AS 1105, paragraph .10A to test the reliability of the mortality tables, as (1) management does not have controls over the information in the company's information system and (2) the company does not perform any procedures over the information.

We believe that the auditor can obtain sufficient appropriate audit evidence that the mortality tables are reliable by obtaining evidence independent of management. The auditor may substantively test the reliability of the information by obtaining the tables directly from the external source. Provided that the auditor is satisfied as to the relevance and reliability of the external source, the auditor would agree the independently obtained information to the tables used by the company. If provided this alternative, even though the controls are not effective, the auditor may still nevertheless be able to obtain sufficient appropriate audit evidence that the data used by management is reliable. The auditor would also separately identify and evaluate deficiencies in the company's internal control.

We suggest the following revisions to AS 1105, paragraph .10A(b) to (1) clarify testing controls in paragraph .10A(b) may include ITGCs and automated application controls "where applicable," but testing such controls would not be required in all cases and (2) replace "test the company's procedures" with "test the completeness and accuracy of information." While it is important to recognize that the auditor may not be able to evaluate the completeness and accuracy of information obtained from an external source to the same degree as the auditor would evaluate the completeness and accuracy of internal information obtained from management, this edit would allow auditors the option of evaluating the reliability of information used in the audit, independent of processes and controls at the company:

- .10A(b) Test controls (including, where applicable, information technology general controls and automated application controls) over the company's procedures discussed in subpart (a) of this paragraph or test the accuracy and completeness of the information ~~test the company's procedures discussed in subpart (a) of this paragraph.~~

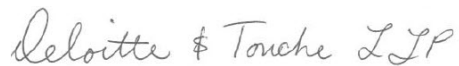
Note: Procedures regarding the reliability of information that the company received from external sources may depend on the nature and source of the information, as well as how the external information will be used in the execution of an audit procedure. The auditor may not be able to evaluate the completeness and accuracy of information obtained from an external source to the same degree as the auditor would evaluate the completeness and accuracy of internal information obtained from the company.

In addition, in the proposed amendments to footnote 3B of AS 1105, the Board includes an example of information regarding cash received from customers as external information maintained by the company in its information systems in electronic form. We suggest the Board provide clarity on why this is an appropriate example of third-party information maintained electronically in the company's information systems. It is unclear whether the Board

intends that this example includes information regarding cash received from bank statements in electronic form (e.g., PDF), as we do not believe bank statements would typically be considered information maintained in the company's information systems. We also recommend the Board include additional, commonly used examples in the release that will accompany the final standard, in order to provide examples of external information used by management and maintained in its information systems (e.g., foreign currency exchange rates).

We would welcome the opportunity to engage with the Board in dialogue about our comments to provide additional context about impacts and implications. If you have any questions, please contact Jennifer Haskell at 203-761-3394 or Dora Burzenski at 206-716-7881.

Yours sincerely,

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

Deloitte & Touche LLP