Via Email

August 25, 2023

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

**PCAOB Rulemaking Docket Matter No. 52, 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 Secretary Brown and Members of the Public Company Accounting Oversight Board (PCAOB or Board):

The Members of the Investor Advisory Group (MIAG)¹ appreciate the opportunity to comment upon the PCAOB’s “Proposed Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form” (Proposal).² We agree with PCAOB Chair Erica Y. Williams that “[t]he use of technology by auditors and financial statement preparers never stops evolving, and PCAOB standards must keep up to fulfill our mission to protect investors. [This] proposal is another key part of our strategic drive to modernize PCAOB standards.”³

We understand the Proposal would amend AS 1105, *Audit Evidence* and AS 2301, *The Auditor’s Responses to the Risks of Material Misstatement*, and make conforming amendments to other related PCAOB auditing standards. These standards were issued in 2010 as part of the Board’s efforts to ensure auditors properly assess the risk of material misstatements of financial statements, whether due to errors or fraud. The development and subsequent use of various technologies have evolved dramatically over the past five decades. We agree with the

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¹ This letter represents the views of Investor Advisory Group (IAG) and does not necessarily represent the views of all of its individual members, or the organizations by which they are employed. IAG views are developed by the members of the group independent of the views of the Public Company Accounting Oversight Board (PCAOB or Board) and its staff. For more information about the IAG, including a listing of the current members, their bios, and the IAG charter, see [https://pcaobus.org/about/advisory-groups/investor-advisory-group](https://pcaobus.org/about/advisory-groups/investor-advisory-group).


Board’s statement “…the use of information in electronic form and technology-based tools by companies and their auditors to analyze such information has expanded significantly since these standards were developed.”

Several examples:

- Long ago, accounting systems moved from paper ledgers to computer systems. Accounting systems have since progressed to the point where substantial amounts of accessible data are now stored in the “cloud,” managed by third party service providers.

- The deployment by the company of searchable databases within a company or a cloud provider has made it more efficient to identify, analyze and evaluate the significance and propriety of data for disclosure in financial reports to the investing public.

- Approximately three decades ago, audit firms began to migrate their audit processes, including supervision and management, to digital formats and systems, making it easier to interface with and gather data from the company being audited.

- During the past two decades, CPA firms have also offshored the work they perform to other countries, such as auditing procedures and income tax compliance work, sometimes for the purpose of reducing audit costs. Accomplished through the use of technology, this results in auditing challenges such as proper planning, performance, and supervision of the work, and evaluation of the results. It has raised questions with respect to how the information and evidence of results of such work are shared with the lead auditor when appropriate, and when necessary, shared with the audit committee.

- For over two decades, advances in databases and data storage have enabled the development of powerful software and hardware tools for analyzing large volumes of data. Researchers and professionals in fields like security analysis and portfolio management, whose work impacts market prices, have adopted these tools - but auditors, who could also benefit, have been slower to utilize them. We believe it is time for auditors to take advantage of these advanced data analysis tools as well. Doing so would likely improve audit quality and enhance auditors’ ability to detect financial misstatements, including those resulting from fraud.

This evolution has not occurred at the same rate in all countries, and for all audit firms. It is probable it has evolved at uneven rates for different auditors, given the disparity in sizes of U.S. auditing and international firms and the resources available to them.

The PCAOB’s standards should directly address the auditors’ use of technology and data. This includes data from both the company being audited and other relevant external sources, and should provide appropriate guidance on obtaining sufficient, appropriate audit evidence. Such evidence should come from inside the audited company as well as external to it. The goal is to ensure auditors will leverage technology and data for their proper evaluation of the fair presentation of financial statements.

We find the principles proposed to be appropriate for the auditing literature being amended. In keeping with the Proposal’s key provisions specified on page 5, we support the proposed amendments if they:

- Specify considerations for the auditor’s investigation of items selected in the planning stages of the audit.

- Specify that if an auditor uses evidence for various objectives, the audit procedures must be designed in a manner that when performed, will achieve each specific objective. The audit planning documentation should support how each procedure will achieve each objective. In turn, the audit workpapers should document that the work performed achieved each objective.
• Require that external information maintained by the company and used as audit evidence by the independent auditor be appropriately evaluated to ensure it is reliable. This should also be true for digital evidence maintained outside the company and used by the auditor to support the high level of assurance provided by the audit opinion.

• Clarify the meaning and purposes of (a) tests of detail and (b) analytical procedures. The standards should note the differing levels of precision between these procedures. They should also provide guidance on when each type of procedure is relevant for assessing misstatement risks. In particular, the standards should specify when technology-assisted analytical procedures must be supplemented by further tests of detail.

We believe sound, well-reasoned auditor judgment in planning an audit is the key to its professional execution. It would improve the Proposal if this basic auditing principle were highlighted and emphasized.

When using technology-assisted audit procedures, it is vital that the auditor considers and evaluates the evidence they provide in the context of the entire audit. The Proposal asserts technology-assisted audit procedures may be used in three ways: in risk assessment procedures, tests of controls, and substantive procedures. In that context, an auditor may determine to test an entire population of data, such as 100 percent of the adjusting journal entries made throughout the year. The auditor would be remiss, however, if consideration were not given to the possibility that there were adjusting entries that had not been entered into the data selected for testing. Likewise, it would be unwise for an auditor to fail to gain an understanding of the internal controls that ensure the completeness and accuracy of the data.

It is important the technology used reflects the proper inputs. News accounts and enforcement actions have often reported how inputs into digital analysis tools, such as credit rating algorithms, loan loss calculations, pension obligation calculations, or even criteria for revenue recognition, did not reflect current trends or developments. It is important that a final standard emphasizes that technology-assisted tools are only as good – or bad – as the data upon which they rely. As a result, auditors’ procedures should include gaining an understanding of such tools and assessing their reliability while considering current developments. We have expressed concern about possible overreliance on such methods and we have suggested that audit quality might be reinforced by addressing technology-assisted audit procedures in the PCAOB standards. We appreciate that the Board has proposed amendments to AS 1105 and AS 2301 in response to our concerns.

Finally, we note that while the PCAOB is continuing its assessment of the use of technology in audits, we strongly urge the Board to include in its final standard a requirement that auditors should use technology that has existed for decades and used by other market participants to assess and verify the accuracy and completeness of financial reports. Financial research and investment management firms have long undertaken the use of technology-based tools noted above to evaluate whether transactions were not reflected in financial statements; whether revenues reported were inflated; to seek unrecorded obligations; or to determine if asset values were inflated. For too long, the auditing profession has not kept up to date with such useful tools, nor utilized them in a timely manner.

We believe the use of currently available technologies by audit firms would benefit those firms through higher quality audits. We believe there is a proven history of such tools being used to ferret out fraud which would benefit investors – especially when fraud is detected earlier. We also believe the use of such powerful technology by the firms would be attractive and perhaps incentivize college graduates to consider accounting and auditing as a more attractive career than what the firms currently offer.
We believe the amendments discussed above will not necessarily increase the cost of audits performed. To the extent the costs increase, we believe they will be more than offset by the benefits of earlier detections of frauds, reduction in litigation costs due to higher quality audits, and reductions of inefficiencies and benefits in attracting new and talented personnel. By requiring auditors to focus on the purpose of technology-assisted audit procedures employed in an audit, we believe that more cogent and cohesive planning of audits will be realized, leading to improved gathering of evidential matter – and this should lead to higher quality audits.

Thank you for carefully considering the comments of the MIAG and other investors—the primary customers of audited financial reports. If you, any members of the Board, or your staff have questions or seek further elaboration of our views, please contact Amy McGarrity at amcgarrity@copera.org.

Sincerely,

Members of the Investor Advisory Group

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