August 12, 2024
By email: comments@pcaobus.org

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

Re: Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards; PCAOB Rulemaking Docket Matter No. 056

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.

Support and General Observations

This letter sets forth our views on the Public Company Accounting Oversight Board's (PCAOB or the Board) Proposed Auditing Standard on Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards (Proposal or Proposed Standard). The CAQ is supportive of the Board's objective to modernize AS 2305 to provide greater clarity regarding the design and performance of substantive analytical procedures (SAP). We offer general feedback regarding the proposed standard and responses to select questions from the proposal below.

Risk Assessment and Auditor Judgment in Designing and Performing SAPs

In an audit performed in accordance with PCAOB standards, the auditor's risk assessment and planned audit response create the foundation for the audit process. Auditors are required to identify and assess audit risks and perform audit procedures to address those risks.[1] Auditors apply professional judgment to determine

[1] AS 2110, *Identifying and Assessing Risks of Material Misstatement*, and AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*.

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which audit procedures will produce sufficient and appropriate audit evidence to provide a reasonable basis for their audit opinion.[2,3]

We are concerned that certain proposed requirements for designing and performing SAPs may unintentionally limit the auditor's ability to exercise professional judgment to design and perform audit procedures in a manner that addresses the assessed risks of material misstatement. Specifically, the proposed standard:

- Establishes a bright line threshold for evaluating differences between the auditor's expectation and the company's amount.
- Continues to restrict the use of SAPs to respond to significant risks.
- Includes a requirement that when substantive procedures are applied to accounts or disclosures that depend on information received by the company from external sources, such procedures should involve examining relevant information from the external sources.

A quality audit tailors procedures based on the auditor's risk assessment and related to the facts and circumstances of the engagement. This is enabled by principles-based standards as there is not a one-size-fits-all approach. Prescriptive requirements related to the design and performance of SAPs limit how auditors can use such procedures as part of the overall audit strategy to respond to assessed risks. Throughout our responses we provide recommendations where we believe that the Proposed Standard could be enhanced by making the requirements more principles-based to enable auditors to design and perform SAPs to respond to the assessed risks.

Future SAPs Could Be Used to Respond to Significant Risks

In the near future, advancements in technology combined with the increased availability of relevant and reliable data that can be disaggregated to a level such that the precision of the procedure may be akin to a test of details may enable auditors to design and perform SAPs to provide sufficient and appropriate audit evidence to respond to significant risks. We agree with the Board's statement in the proposal that "[t]he appropriate use of technology-assisted analysis in well-designed substantive analytical procedures can improve the quality of audit evidence obtained through the procedures."[4] The auditors' inability to use SAPs to respond to significant risks may be limiting in the future and counterproductive to promoting audit quality. We recommend that the Board continue to consider and monitor whether certain SAPs, as observed through inspection and oversight activities, would provide sufficient and appropriate audit evidence to respond to a significant risk and when appropriate, the Board should amend the PCAOB auditing standards to remove the restriction.

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[2] AS 1105.04.

[3] The PCAOB has recently finalized AS 1000, *General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards*, which addresses auditors' responsibilities related to professional judgment, in addition to other foundational responsibilities.

[4] Page 13.

Summary of Significant Feedback on the Proposal

We are supportive of modernizing the standard with principles-based requirements. In our responses to the specific questions outlined in the proposal, we offer feedback on certain proposed requirements for which we believe additional clarifications or edits are needed to prevent unintended consequences, such as inconsistent application and unnecessary costs. We have only responded to questions where we have specific feedback or recommendations. Our most significant comments are as follows:

- **The term "company's amount" needs to be more clearly defined within the Proposed Standard to better differentiate the term from other recorded balances and company-prepared information.**

  The definition of the term "company's amount" included in the Proposed Standard could lead to confusion and inconsistency in practice, particularly as it relates to the proposed requirement to prevent circular auditing (proposed AS 2305.07). As currently proposed, the term could be misinterpreted to broadly refer to any amount or information prepared by the company (regardless of whether such information is the amount to which the auditor's expectation will be compared). We recommend that throughout the standard the term be referred to as "Company's Amount" to more clearly define the term (referring specifically to the amount being tested in the SAP) and distinguish it from other recorded balances and company-prepared information that may be relevant in designing and performing an SAP. Additionally, proposed AS 2305.02 should be updated to more directly state that the "Company's Amount" is the "recorded amount or an amount derived from recorded amounts to which the auditor's expectation will be compared." See detailed discussion and recommendations in our response to question 14 below.

- **We do not support the requirement to examine relevant information from external sources when the company's account or disclosure depends on information the company received from one or more external sources.**

  The requirement in proposed AS 2301.40A seemingly limits auditors' ability to use professional judgment when designing audit procedures and determining the extent of audit evidence needed to address the identified risks of material misstatement. We recommend that the proposed requirement be removed from the final standard for the reasons outlined in response to question 22. While we do not support inclusion of this requirement in the final standard, we provide recommendations for further consideration and dialogue in our response to question 22. We strongly encourage the PCAOB to engage in further two-way dialogue with stakeholders on this proposed requirement before it is finalized to arrive at a solution that achieves the PCAOB's objective and avoids unintended consequences.

- **Establishing a maximum threshold of tolerable misstatement for evaluating differences is not appropriate.**

  We understand the PCAOB's intent in requiring the threshold for evaluating differences between the auditor's expectation and the company's amount to be at or below tolerable misstatement. However, this threshold does not allow for professional judgment and in practice there are a variety of common situations where a threshold above tolerable misstatement may be appropriate, such as when the auditor may perform an SAP in combination with other substantive audit procedures to address the identified risk or the auditor performs one or multiple SAPs over disaggregated parts of an account or disclosure that have the same or differing risks (e.g., disaggregated by component, location, product line, etc.). To account for the range of situations in which an auditor may use SAPs as part of the substantive testing approach, we recommend that the proposed prescribed maximum threshold be removed and instead retain the principles-based approach for establishing a threshold from the extant standard, which includes qualitative and quantitative factors. See detailed discussion in our response to question 16 below.

Request for Implementation Resources

In addition to the suggested updates to the Proposed Standard that we offer in our comments below, we also suggest the PCAOB provide implementation resources, including implementation guidance where necessary and appropriate and examples based on the PCAOB's observations from inspections and other oversight activities. Real-life examples of SAPs demonstrating best practices, innovative approaches and the use of technology, and issues (like circular auditing) would provide useful guidance to auditors and promote consistent implementation.

Specific Feedback

7. *Are the factors that affect precision clear and appropriate? If not, how should they be clarified? Are there other factors upon which a substantive analytical procedure's level of precision depends? If so, what are they?*

   We generally find the factors that affect precision to be clear and appropriate, but they could be further enhanced by explicitly including the concept of disaggregation, specifically that the level of disaggregation may impact the level of precision of an audit procedure.

   AS 1105.07 was recently revised in the PCAOB's *Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form* to state that the "level of disaggregation or detail of information necessary to achieve the objective of the audit procedure" impacts the relevance of audit evidence.[5] As such, this concept is indirectly included in proposed AS 2305.04 which includes relevance as a factor impacting the precision of an SAP but it would be beneficial for disaggregation to be specifically called out as a factor affecting precision and therefore, the persuasiveness of evidence that may be obtained from the procedure. Disaggregation impacts several aspects of designing and performing the SAP including identifying the "company's amount" to be tested, determining the plausibility and predictability of the relationship, and determining the threshold for investigation. This is particularly important when designing SAPs using technology, which can enable the auditor to perform SAPs at a more disaggregated level. As such, we recommend the following edits to proposed AS 2305.04 (additions marked as underlined):

[5] 2024-007-AdoptingRelease (pcaobus.org), page 64.

.04 Under AS 2301, in designing and performing audit procedures, the higher the auditor's assessment of risk, the more persuasive audit evidence the auditor should obtain. [FN3 Excluded] More persuasive audit evidence is obtained from a substantive analytical procedure when the procedure is more precise and uses more reliable information. The precision of a substantive analytical procedure <u>is impacted by the level of disaggregation and</u> depends on (i) the relevance of the information used in designing and performing the procedure, (ii) the plausibility and predictability of the relationship on which the procedure is based, and (iii) the amount of the threshold for evaluating differences between the auditor's expectation and the company's amount.

Note: When designing and performing a substantive analytical procedure, the auditor should evaluate the relevance and reliability of information used in accordance with AS 1105. This includes, when such information is produced by the company, testing the accuracy and completeness of the information or testing the controls over the accuracy and completeness of that information.

8. *Are the requirements for evaluating the relevance and reliability of information used in a substantive analytical procedure in accordance with AS 1105 clear and appropriate? If not, how should they be clarified?*

As we describe further in our comment letter to the Securities and Exchange Commission (SEC) regarding the *Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form*, we have concerns regarding the new AS 1105.10A related to evaluating the reliability of external information provided by the company in electronic form.[6] Specifically, we are concerned that the revised language in AS 1105.10A could suggest 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 we describe further in our comment letter, we presume that this is not what the PCAOB intended. We support a risk-based approach in complying with AS 1105.10A, but do not support the amendments if more extensive procedures are now required to address this risk of modification.

For a more detailed discussion of our concerns related to AS 1105.10A, refer to our comment letter to the SEC. Engagement with stakeholders on the Board's intent in proposing these new requirements in both the Technology-Assisted Analysis and Substantive Analytical Procedures projects is particularly important because the impact of the requirement in AS 1105.10A is compounded when combined with proposed AS 2301.40A as discussed further in our response to question 22.

[6] theCAQ.org | Comment Letter | Comment Letter to the SEC re Technology-Assisted Analysis Amendments Adopted by the PCAOB

10. *Is the proposed requirement that the auditor identify the relationship or relationships to use in the substantive analytical procedure and determine whether each such relationship is sufficiently plausible and predictable clear and appropriate? If not, how should it be clarified?*

The requirement to identify the relationship or relationships to use in the SAP and determine whether each such relationship is sufficiently plausible and predictable is appropriate, but additional implementation guidance in the form of examples would be helpful to demonstrate the range of procedures that might be performed to determine that a relationship is sufficiently plausible and predictable. We offer a few potential examples below but also recommend that the PCAOB include examples seen through inspection and oversight activities.

- A company has interest expense related to a long-term debt agreement. Interest expense is calculated as the interest rate multiplied by the outstanding debt balance. In this example, it would be appropriate for the auditor to obtain and examine the debt agreement to validate the relationship between interest expense, the interest rate per the debt agreement, and long-term debt.

- A company has revenue from product sales and its sales employees earn a flat rate commission on all sales. As such, commissions expense is simply calculated as revenue from product sales multiplied by the commission rate. In this example, it would be appropriate for the auditor to obtain and examine the company's sales commission policy to validate the relationship between commissions expense, the commission rate, and revenue from product sales.

Additionally, we recommend clarifying that the procedures described in proposed AS 2305.06 are examples of procedures that would extend beyond inquiry (as required by proposed AS 2305.05).

It would also be helpful to more clearly connect the determination about the sufficiency of the plausibility and predictability of the relationship on which the procedure is based to the auditor's professional judgment regarding the persuasiveness of audit evidence that the auditor plans to obtain to achieve the objective of the procedure (in accordance with proposed AS 2305.03 and .04). Accordingly, we recommend the following update to proposed AS 2305.06 (additions marked as <u>underlined</u>):

> ***.06*** *Relationships used in the substantive analytical procedure must be sufficiently plausible and predictable to achieve the objective of the procedure <u>in terms of the desired level of precision pursuant to paragraph .04</u>. When determining whether a relationship is sufficiently plausible and predictable, the auditor should take into account all relevant information of which the auditor is aware, including information obtained from:*
>
> > *a. The auditor's understanding of the company and its environment, [FN 4 excluded] and*
> > *b. Other procedures performed in the audit and in reviews of interim financial information.*

Note: Events, conditions, and company activities that may affect the plausibility and predictability of a relationship, include specific unusual transactions or events, accounting changes, business changes, or external factors, such as general economic conditions and industry factors.

14. *Is the proposed change specifying that the auditor may not develop the expectation using the company's amount or information that is based on the company's amount clear and appropriate? If not, what changes should be made?*

We are supportive of the intent of the requirement for the auditor to develop an expectation that does not use the recorded amount or amounts derived from the recorded amount (i.e., the amount to which the auditor's expectation will be compared). However, we are concerned the requirement as currently proposed and the accompanying examples in the release text will lead to confusion and inconsistency in practice.

<u>Definitions</u>
We are supportive of the Proposed Standard introducing the new term "company's amount" but are concerned that the term as used in proposed AS 2305.07 could be misinterpreted to broadly refer to any amount or information prepared by the company (regardless of whether such information is the amount to which the auditor's expectation will be compared). This would cause significant challenges for auditors and lead to inconsistencies in practice. To address this concern, we recommend that throughout the standard "company's amount" be updated to "Company's Amount" to more clearly define this term and distinguish it from other recorded balances and company-prepared information that may be relevant in designing and performing an SAP. Additionally, proposed AS 2305.02, which introduces the term, should specifically define the term and state that the Company's Amount is the amount to which the auditor's expectation will be compared. We recommend the following updates to proposed AS 2305.02 (additions marked as <u>underlined</u> and deletions are ~~struck through~~):

.02 A substantive analytical procedure involves comparing <u>the Company's Amount</u> ~~a recorded amount or an amount derived from recorded amounts (as applicable, the "company's amount")~~ to an expectation of that amount developed by the auditor to determine whether there is a misstatement. The auditor's expectation when performing a substantive analytical procedure is based on one or more plausible and predictable relationships among financial or nonfinancial data.

<u>Note: For the purpose of this standard, the term "Company's Amount" refers to the recorded amount or an amount derived from recorded amounts to which the auditor's expectation will be compared.</u>

Additionally, we have concerns regarding the term "information that is based on the company's amount" which is used in paragraph .07 but has not been defined in the Proposed Standard or within the release text. This term is broad and could be subject to differing interpretations. Particularly, we have concerns that the requirement could imply that the auditor may not use any information from the company to develop their expectation, which we do not believe should be prohibited. To resolve these concerns, it would be helpful to either define this phrase within the release or include examples of such information (as discussed further below).

Circularity

Proposed AS 2305.07 could be enhanced by more clearly stating that the auditor may not develop an expectation on a circular basis. Including this directly within the requirements of the standard will enhance auditor understanding and promote consistency in practice.

Further, it would be helpful to clarify in the release that this requirement is not intended to refer to circumstances in which the auditor has developed an expectation using other company balances that the auditor has performed procedures over that are related to, but not derived from, the company's amount that is subject to the SAP. For example, it would be appropriate for an auditor to use the recorded balance for long-term debt (that the auditor has confirmed with the lender) to develop an expectation of interest expense, to use prior year audited payroll expense per employee and current year employee headcount to develop an expectation of current year payroll expense, or to use an audited interim balance of payroll expense to develop an expectation for the period between interim and year-end. These examples clearly do not represent circular auditing, and we do not think that the requirement in proposed AS 2305.07 was intended to prevent auditors from performing SAPs that may use information from the company (that is appropriately evaluated for relevance and reliability) to develop an expectation. We believe that the edits we have suggested to proposed AS 2305.02 also help address this concern.

Examples

The examples included in the release could be enhanced to provide more context and clarity. As we describe in the *Request for Implementation Resources* section above, auditors would benefit from the PCAOB providing more practical or common examples based on what the PCAOB has observed through its inspections and oversight activities.

16. *Is the proposed requirement that the auditor determine a threshold to evaluate the difference between the auditor's expectation and the company's amount clear and appropriate? If not, what changes should be made?*

We understand the PCAOB's intent in requiring the threshold for evaluating differences between the auditor's expectation and the company's amount to be at or below tolerable misstatement. We agree that there are some circumstances in which using a threshold of tolerable misstatement is likely appropriate, but we do not believe that the Proposed Standard should prescribe a threshold. In practice it is common that the auditor may perform an SAP in combination with other substantive audit procedures to address the identified risk or perform one or multiple SAPs over disaggregated parts of an account or disclosure that have the same or differing risks (e.g., disaggregated by component, location, product line, etc.). In these cases, auditor professional judgment is important to determine the appropriate threshold for investigation. Given the objective of the SAP, it may be appropriate for the auditor to use a threshold above tolerable misstatement in these situations.

Accordingly, to account for the variety of different situations in which an SAP may be performed, the Proposed Standard should allow for professional judgment in determining the appropriate threshold for investigation depending on the objective of the procedure and the persuasiveness of the audit evidence that the auditor intends to obtain from the procedure (consistent with proposed AS 2305.04). Tolerable misstatement may be an appropriate guidepost, but ultimately, the determination of the threshold should be made using professional judgment. The extant standard appropriately allowed auditors to use professional judgment in determining a threshold. We encourage the PCAOB to retain such concepts. We recommend that proposed AS 2305.08 be updated to remove the phrase "The amount of the threshold should be set at or below tolerable misstatement."

22. *The proposed amendment specifies that when substantive procedures are applied to accounts or disclosures that depend on information received by the company from external sources, such procedures should involve examining relevant information from the external sources. Is this proposed amendment clear and appropriate? If not, what changes should be made?*

We do not support proposed AS 2301.40A. Based on the information and discussion in the Proposal, we do not fully understand the purpose of the amendment and the behavior it is intending to promote. Further, the amendment appears to limit the auditor's ability to use professional judgment to design audit procedures to respond to the assessed risks of material misstatement. We believe that this amendment should be removed from the final standard.

Should the PCAOB decide to retain this amendment in the final standard, we believe that several topics (discussed below) require additional consideration and clarification and strongly encourage the PCAOB to engage in further two-way dialogue with stakeholders regarding proposed AS 2301.40A before it is finalized to arrive at a solution that achieves the PCAOB's objective and avoids unintended consequences. Additionally, it is important that a requirement in the final standard take a risk-based approach enabling the auditor to use professional judgment to identify relevant external information as audit evidence and the extent of procedures to evaluate the reliability of such information. We welcome the opportunity for further engagement with the PCAOB on this topic.

- The release indicates that this amendment is intended to reduce over-reliance on company-produced information. However, existing PCAOB auditing standards (for example, AS 1105.08 - .10) specifically include requirements for auditors to evaluate the reliability of information produced by the company used as audit evidence, with a particular focus on the completeness and accuracy of internal information produced by the company. These existing requirements indicate that external information is generally more reliable than internal information produced by the company[7] and requires the auditor to evaluate whether the information produced by the company is sufficient and appropriate for purposes of the audit.[8] As there is already a framework for auditors to consider the source of information (internal or external) used as audit evidence

[7] AS 1105.08.
[8] AS 1105.10.

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and evaluate the reliability of such information, the new amendment in AS 2301.40A requiring the auditor to examine external information is not necessary. If the PCAOB expects incremental procedures to evaluate the reliability of company-produced information, guidance related to the existing requirements in AS 1105 would be more appropriate.

- We are concerned that proposed AS 2301.40A will have far-reaching implications on the extent of audit procedures as many significant accounts depend on information from external sources. The release includes examples of accounts that depend on external information, but it is unclear if the intent of the requirement is to include a majority of the significant accounts in an audit. We recommend taking a risk-based approach to determining when the auditor's procedures should include examining external information, rather than the broadly applying to all of the company's accounts or disclosures that depend on external information regardless of assessed risk.

- Additionally, we are concerned that proposed AS 2301.40A will require auditors to obtain information that is not otherwise relevant to the auditor's procedures or that undermines the risk-based approach established in the requirements in AS 1105. Some transaction processes within a company may involve several pieces of external information used throughout the process. It is unclear based on the requirement if the auditor would be expected to examine all external information used in the process or only the external information relevant to the auditor's substantive audit procedures. If this requirement remains in the final standard, the PCAOB should clarify that this requirement relates specifically to relevant external information used as audit evidence. The auditor would not be expected to obtain other external information used in the company's process but not relevant to the auditor's procedures.

- It is unclear if the requirement to examine relevant external information could be satisfied by the auditor examining external information in the performance of the auditor's control testing and risk assessment procedures. The auditor will often obtain external information in the performance of those procedures. We think that it would be appropriate for the performance of such procedures to satisfy the requirement to examine external information and in such cases the auditor would not be required to perform incremental procedures related to that external information in the performance of substantive procedures. If the requirement remains in the final standard, we recommend that this point be clarified to promote consistency in practice.

- Finally, proposed AS 2301.40A could be interpreted as requiring auditors to obtain more external information than they have before. Proposed AS 2301.40A coupled with the new AS 1105.10A (see our comments in response to question 8) could significantly increase the amount of work that auditors perform and the information that management may need to make available to auditors. Further evaluation is needed regarding how these requirements would interact. Additionally, the cost associated with this, relative to the benefits, has not been adequately considered in the economic analysis. Should this requirement remain in the final standard, the costs associated with this requirement (combined with new AS 1105.10A) need to be addressed in the economic analysis.

35. *Proposed AS 2305 does not change the existing requirements of AS 2301, that to address significant risks, including fraud risks, the auditor should perform tests of details specifically responsive to the assessed risk. Should changes be made to this existing requirement? If yes, what changes should be made and are there examples where a substantive analytical procedure would be just as or more effective than a test of details in addressing significant risks? When providing examples, please provide as much detail as possible, including a brief description of the account, relevant assertion, design of the substantive analytical procedure, and discuss how the procedure addresses the specific likely source of potential misstatement.*

    As described in the *Future SAPs Could Be Used to Respond to Significant Risks* section above, we believe that as technology evolves SAPs may provide sufficient and appropriate audit evidence to respond to significant risks. We recommend that the Board continue to monitor whether certain SAPs, as observed through inspection and oversight activities, would provide sufficient and appropriate audit evidence to respond to a significant risk. In the future, the Board should amend the PCAOB auditing standards to remove the restriction on the use of SAPs and provide a Staff Update or other communication highlighting examples of such SAPs.

36. *Should proposed AS 2305 explicitly address aspects of the use of technology when designing and performing substantive analytical procedures, including situations where the use of technology might improve the quality of audit evidence obtained from such procedures? If so, how?*

    We are supportive of the Proposed Standard not explicitly addressing the use of technology and believe that a principles-based approach allows for auditors to apply the requirements to audit procedures performed with or without technology. However, some audit procedures that use technology may be difficult for auditors to classify as either tests of details or SAPs because they exhibit characteristics of both tests of details and SAPs. This will increasingly become a challenge as technology advances in the future. We believe that the most important consideration is whether the audit procedure has provided sufficient and appropriate audit evidence, not whether it is classified as a test of details or SAP. In the future, the PCAOB should evaluate whether the binary classification of substantive procedures continues to be necessary.

38. *Would the proposed effective date present challenges for auditors? If so, what are those challenges, and how should they be addressed?*

    As proposed, the standard would be effective for audits of fiscal years beginning on or after December 15^{th} of the year of approval by the SEC. If the final standard is approved by the SEC in 2025, the standard would be effective for audits of fiscal years beginning on or after December 15, 2025. We believe that this will pose significant challenges for auditors and even more so if the SEC approves the final standard in 2024. In addition to needing to update firm methodology, templates, and tools and train employees, there are several other PCAOB standards that will be effective around this same time and the cumulative impact of implementing several standards in a short time period will be challenging for firms, especially smaller firms.[9] It takes time and significant resources to consistently and effectively implement PCAOB standards and a condensed implementation period heightens the risk that standards will not be implemented appropriately.

Additionally, this standard is closely related to the *Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form,* particularly new AS 1105.10A. As we describe in our comment letter to the SEC related to the approval of that standard, the requirements in AS 1105.10A will impact preparers in addition to auditors.[10] Additional time may be needed for preparers to implement and operate controls related to the modification of external information.

As such, we recommend that the effective date of the standard be extended at a minimum to one year after approval by the SEC, or if it is approved by the SEC in the third or fourth quarter of the year, two years after approval (and no earlier than for audits of fiscal years beginning on or after December 15, 2026). This will provide firms sufficient time to update methodology, templates, and tools and to train employees. Additionally, when setting the effective date of this standard and others, we strongly encourage the Board to consider the cumulative impact of other ongoing standard-setting projects that are expected to be adopted and implemented over a similar time period.

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[9] PCAOB standards that will be effective in the near future include:

- Planning and Supervision of Audits Involving Other Auditors and Dividing Responsibility for the Audit with Another Accounting Firm – Effective for audits of financial statements for fiscal years ending on or after December 15, 2024.
- The Auditor's Use of Confirmation (AS 2310) – Effective for audits of financial statements for fiscal years ending on or after June 15, 2025.
- General Responsibilities of the Auditor in Conducting an Audit (AS 1000) – Effective (pending SEC approval) for audits of financial statements for fiscal years beginning on or after December 15, 2024.
- Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form – Effective (pending SEC approval) for audits of financial statements for fiscal years beginning on or after December 15, 2025.
- A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms – Effective (pending SEC approval) on December 15, 2025.

[10] theCAQ.org | Comment Letter | Comment Letter to the SEC re Technology-Assisted Analysis Amendments Adopted by the PCAOB

The CAQ appreciates the opportunity to comment on the proposal, and we look forward to future engagement. As the Board gathers feedback from other interested parties, we would be pleased to discuss our comments or answer questions from the Board regarding the views expressed in this letter. Please address questions to Vanessa Teitelbaum (vteitelbaum@thecaq.org) or Erin Cromwell (ecromwell@thecaq.org).

Sincerely,

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

cc:

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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

SEC
Paul Munter, Chief Accountant