

August 9, 2024

PCAOB
Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Email: comments@pcaobus.org

RE: PCAOB Rulemaking Docket Matter No. 056

We appreciate the opportunity to provide feedback on the proposed PCAOB Release No. 2024-006, *Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures* (PCAOB Rulemaking Docket Matter No. 056), dated June 12, 2024. The purpose of PCAOB Release No. 2024-006 is to improve the quality of audits and enhance investor protection by strengthening and clarifying existing requirements to increase the likelihood that substantive analytical procedures will be appropriately designed and performed to provide relevant and reliable audit evidence when responding to assessed risks of material misstatement.

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs.

The PSC supports the PCAOB's efforts to update and modernize rules and guidance on the use of substantive analytical procedures in the audit by issuing a new standard. The PSC believes the proposed rules will help bring consistency in the execution of substantive analytical procedures.

However, the proposed standard as drafted does not meet the Board's objective of clarification in many aspects. We believe the Board erred by "removing descriptive language and illustrative examples" from the current standard.

The PSC provides the following recommendations to ensure the proper implementation of the proposed standard:

- Further clarification is required regarding the concept of "circular auditing" and more specifically, practical guidance along with examples of misuse of a company's amount or information that is based on the company's amount. This guidance could be based on PCAOB staff's experience and observations from their inspections. For example, analytical procedures often consider prior year amounts and the proposal's use of the term "company's amount" is presented in a confusing manner.
- Further guidance is needed to help determine whether a relationship used in the substantive analytical procedure is sufficiently plausible and predictable and for determining appropriate sources of information for developing expectations.
- In addition, more guidance is needed for evaluating differences. For instance, the proposed standard states more differences can be identified if using a lower threshold and



disaggregated amounts. Guidance is needed to understand considerations as to how much disaggregation is required.

The recommendations listed above are critical as we believe many firms limit the use of substantive analytics in their auditing procedures or are no longer performing substantive analytical procedures at all, opting instead to default to test of details. In large part, this is due to the perception that the procedures cannot be performed in a manner satisfactory to regulators.

As substantive analytical procedures can bring greater efficiency to the audit process, it is imperative that more comprehensive guidance is made available to encourage their use and ensure proper execution.

We appreciate the opportunity to submit comments on the proposed PCAOB Release No. 2024-006, *Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures* (PCAOB Rulemaking Docket Matter No. 056).

Sincerely,

A handwritten signature in cursive script that reads "Jeffrey L. Johanns".

Jeffrey Johanns, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants