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Via email: comments@pcaobus.org

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

**Re: PCAOB Rulemaking Docket Matter No. 056**

Dear Office of the Secretary:

BDO USA, LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") Proposed Auditing Standard – *Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards* (the "proposal" or the "release").

Overall, we are supportive of the Board's objectives of strengthening and clarifying the existing requirements regarding designing and performing substantive analytical procedures and while we are broadly supportive of the proposed amendments. We believe that certain clarifications to the proposed amendments are necessary to both avoid potential misinterpretation and inconsistency in application of the proposed requirements and encourage auditors use of substantive analytical procedures in practice. In the following sections of this letter, we provide feedback with respect to specific aspects of the proposal for your consideration.

**Designing and Performing a Substantive Analytical Procedure to Respond to a Risk of Material Misstatement**

We are supportive of the Board's overall objectives of prohibiting the risk of circular auditing in practice; however, the definition associated with the term "company's amount" and "information that is based on the company's amount," is not sufficiently clear. Specifically, proposed AS 2305.07 states that "[t]he auditor may not develop the expectation using the company's amount or information that is based on the company's amount." The proposed requirement may lead to potential misinterpretation that auditors are prohibited from using any information (financial or non-financial) from the company's information system in developing expectations about the company's amounts.

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The term "company's amount" is defined in proposed AS 2305.02 as "a recorded amount or an amount derived from recorded amounts." The release text emphasizes that the new term "company's amount" in proposed AS 2305 is broader than the reference in existing AS 2305.[1] In addition, the term "information that is based on the company's amount" in proposed AS 2305.02 is not defined in the proposed standards or elsewhere in the proposal. While we interpret this statement to encompass both financial or nonfinancial information that is based on the company's amount, the terminology is broad and therefore subject to different interpretations. In aggregate, if the proposed requirements and terminology remain unchanged in the final standards, it may have unintended consequences of reducing the auditor's use of substantive analytical procedures in practice.

It is common in practice for auditors to use information generated from the company's information system in developing expectations of the company's recorded amounts upon establishing relevance and reliability of such information in accordance with AS 1105. Auditors should not be prohibited from using information generated from the company's information system in developing expectations. The release text provides examples where it would be reasonable for the auditor to determine an expectation of depreciation expense based, at least in part, on the company's recorded fixed asset amounts.[2] The release text also provides an example of establishing expectations about the company's recorded amount of interest expense based on the principal amount of the company's debt and applicable interest rates.[3] In both of these examples, the auditor's expectation would be developed based on amounts from the company's information system, which does not appear to align with proposed AS 2305.07.

**Related Amendments to Other PCAOB Auditing Standards**

In general, we find the amendments to other PCAOB auditing standards as a result of the proposed amendments to AS 2305 to be appropriate; however, we have certain concerns with respect to the addition of proposed AS 2301.40A as it introduces potential unintended consequences of expanding the scope of the auditor's responsibilities beyond those established in AS 1105.

Specifically, we believe that AS 1105 already establishes requirements for the auditor to evaluate the reliability of both internal (information produced by the company) and external sources of information when using such information as audit evidence. The introduction of proposed AS 2301.40A creates ambiguity, as described below, with respect

[1] See page 20 of the proposal.
[2] See page 33 of the proposal.
[3] See page 5 of the proposal.

to the auditor's responsibilities relative to those established in AS 1105, and therefore we recommend removing this new proposed paragraph from the final adopted standards.

The release text provides examples of accounts or disclosures that depend on information that the company received from one or more external sources such as revenue, cash, or financial instruments. A majority of the company's accounts or disclosures are dependent, to varying degrees, on external information sources. We are concerned that proposed AS 2501.40A does not provide the auditor with the ability to apply professional judgment in evaluating the reliability of such information when used as audit evidence in responding to assessed risks of material misstatement associated with the account or disclosure.

Proposed AS 2301.40A states that "such procedures **should** involve examining relevant information that the company received, or that the auditor obtained directly, from the external source(s)" **(emphasis added)**. We interpret these proposed requirements as establishing a presumptively mandatory responsibility for the auditor to examine additional information that the company received to validate the reliability, including the authenticity, of information obtained in electronic form, regardless of the source of such information, the circumstances under which such information was obtained, and the degree to which the use of that external information is relevant to the reasons for the assessed risks of material misstatement.

In practice, it may not be practicable for the auditor to examine further relevant information that the company received in various circumstances when such information only exists in electronic form. For example, contracts, agreements, and other legal documents that are frequently signed and stored in electronic format, and e-commerce transactions only exist in electronic format.

The proposed paragraph .40A does not appear to align with the Board's recently adopted changes to AS 1105.10A which permits the auditor to perform substantive procedures to test the information to determine whether it has been modified by the company and evaluate the effect of those modifications; or test the controls over receiving, maintaining, and processing the information (including, where applicable, information technology general controls and automated application controls). Specifically, the requirements in proposed AS 2301.40A are unclear as to whether it permits the auditor to perform tests of control.

Lastly, the proposed requirement to examine further relevant information with respect to every piece of electronic information provided by the company from external information sources contradicts the requirements in AS 1105.09, which states that the auditor should modify their planned audit response 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.

We request the Board provide further clarification with respect to the above matters to support the proper implementation and consistent application of these requirements in practice.

**Effective Date**

We believe there are certain aspects of the proposed standard and related amendments that will require additional time to design and implement necessary changes to firm methodologies, tools, and training beyond the date being considered by the Board. We recommend an effective date for audits of fiscal years beginning on or after December 15 at least one year after approval by the SEC. Therefore, assuming SEC approval occurs during 2024, we recommend the final standard be effective no earlier than for audits with fiscal years beginning on or after December 15, 2025.

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We appreciate the opportunity to provide our input on the Board's proposal and would be pleased to engage in further dialogue with the Board and its staff about our comments. Please direct any questions to Rob Thornton at 713-561-6515 (rthornton@bdo.com) or Ashwin Chandran at 214-689-5667 (achandran@bdo.com).

Very sincerely,

BDO USA, P.C.

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