



National Association of State Boards of Accountancy

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

Via email: [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

Dear Members of the Public Company Accounting Oversight Board (PCAOB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the PCAOB's Release, *Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards* (Proposal).

Founded in 1908, NASBA serves as a forum for the nation's Boards of Accountancy (State Boards), representing fifty-five jurisdictions. NASBA's mission is to enhance the effectiveness and advance the common interests of the State Boards that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following comments.

### **General Comment**

NASBA commends the PCAOB for their continued efforts in modernizing the standards. As noted in the Proposal, since the PCAOB's adoption of the foundational standards, both the International Auditing and Assurance Standards Board (IAASB) and the Auditing Standards Board (ASB) of the AICPA have updated their analogous standards (ISA 520 and AU-C 520, respectively) although not very recently.

The Proposal indicates that ISA 520 and AU-C 520 were considered in the development of the proposed AS 2305 and that the proposed AS 2305 goes beyond those standards to consider the evolution of audit practices, the use of technology and the greater availability of information.

We believe there could be overall threshold issues with the proposed AS 2305. There are references in the Proposal that indicate that tests of details provide better audit evidence than substantive analytical procedures. We respectfully challenge the PCAOB to consider if the proposed AS 2305 has gone far enough to influence a change in practice for substantive analytical procedures. Considering the advancements in technology and use of technology-assisted analytical tools, is there an opportunity to rethink substantive testing to allow for hybrid testing that does not fall handily in either test of details or substantive analytical procedures? Is there an opportunity to expand the definition of a substantive analytical procedure? Or perhaps create a new category of substantive testing to allow for more technology-assisted, data analytic-type of testing?

### **Implementation of Principles-Based Standards**

The proposed AS 2305 is principles-based. We fully support principles-based standards, as opposed to more prescriptive rules-based standards. We recognize that principles-based standards can be more challenging to implement by auditors and in turn to enforce by regulators due to the greater level of judgment that can be implicit in their implementation. We believe that, in this modern era in which technology advancements move at a rapid pace, more prescriptive requirements could stifle innovation and the use of innovative techniques. Nevertheless, we believe that auditors as well as regulators can benefit from additional implementation guidance to clarify the intent and expectations associated with the standards.

We are also concerned that some specific wording in the proposed AS 2305 could be misinterpreted or misapplied. We believe including more robust examples in the standard or as supplemental guidance would help clarify requirements and set appropriate expectations. For example, paragraph .07 of the proposed AS 2305 states that the auditor may not develop the expectation of the company's amount using the company's amount or information that is based on the company's amount; however, there is no additional information or detail on setting the expectation (the auditor is only provided the prohibition). Additional guidance, including explanatory examples, would raise the level of understanding and impact the likelihood of success in execution.

### **Perceived Regulatory Risk of Noncompliance**

In several places in the discussion of the proposed AS 2305, the PCAOB refers to auditors' reducing the use of substantive analytical procedures based on their perceived risk of regulatory noncompliance. NASBA does not believe that the proposed AS 2305 adequately addresses this concern. In particular, the elimination of the documentation requirements (in deference to AS 1215) appears to undermine a goal of making it clear to auditors what they need to do to remain in full compliance if they choose to employ substantive analytical procedures.

### **Effective Date**

The Proposal states that the PCAOB is considering whether compliance with the adopted standard and related amendments should be required for audits of fiscal years beginning on or after December

15 of the year of approval by the SEC. Depending on the timing of SEC approval, compliance with the standard could effectively be required in less than a month after approval.

We are concerned that, depending on the approval date by the SEC, the effective date may be too soon to allow firms to update methodologies, provide appropriate training and effectively implement the standards. Inspection teams also need to be considered in developing implementation time horizons. Inspection teams will also need ample time for updating methodologies and providing appropriate training to team members. Effective implementation of standards is in the public interest.

**Special Consideration for Emerging Growth Companies (EGC)**

While the risk profile of an EGC is different from more mature entities, we agree that the Proposal should apply to EGCs. To exclude EGCs from the Proposal would be inconsistent with protecting the public interest.

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Again, we appreciate the opportunity to comment on the Proposal.

Very truly yours,



Stephanie M. Saunders, CPA  
NASBA Chair



Daniel J. Dustin, CPA  
NASBA President and CEO