August 12, 2024

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

RE: PCAOB Release No. 2024-006, Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards

Dear Madam Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the "Board") Proposed Amendments Related to the Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards (the "Proposal" or the "Proposed standard").

Support for proposal

We commend the Board for its proactive approach in continuously improving the audit standards, particularly in an era of rapid technological advancement and innovation. At MindBridge, we have long realized that transparency is critical for safe and effective use of technology. We firmly support efforts to uphold trust in the audit environment, safeguarding capital markets and the interests of investors who drive economic growth.

MindBridge's mission has been founded on the objective to support auditors in assisting them to provide efficient and effective audits to their clients, enabled by technology and advanced anomaly detection. We believe auditors play a critical role in fostering trust and must continually evolve to meet stakeholder expectations effectively. However, the profession faces significant challenges such as regulatory complexities, staffing shortages, and fee pressures, which are well-known to the Board.
Our feedback on the proposed standard is shared considering these challenges and our commitment to enhancing the auditors' roles within the current environment. We advocate for auditors, and their stakeholders alike, aiming to foster a robust and adaptive audit profession that is responsive to the ever-evolving times.

While we support the PCAOB's efforts to address the modernization of audit approaches, such as performing substantive analytical procedures, through principles-based requirements, we equally urge the Board to include appropriate guidance as outlined below in the final standard release.

Support for enhanced use of data analytics
We believe that a well-designed and executed substantive analytics that is assisted by technology is one of the more powerful ways to address the audit risk, and a model that is accomplished by also significantly lowering the detection risk for auditors. While the intention of the proposed standard is to provide clarity and guidance to auditors in planning and executing substantive analytical procedures, MindBridge's view is that the current draft does not sufficiently encourage, or strongly advocate for, the use of data analytics as an important component of how substantive analytics can be performed in audits. In today's audit

environment where auditors handle increasingly large volumes of financial data, integrating data analytics is essential to meet evolving audit demands. We firmly believe that the future of audit is closely tied to the improvement in technology and data-driven audit methodologies. As currently written, the proposed standard's tone limits the auditors' adoption of a more data-driven audit approach. Slight variations to the current draft wording would result in greater impact on the adoption of advanced analytics across the industry. As an example, paragraph 01 of the proposed standard can be revised to explicitly highlight the Board's perspective on the effectiveness of substantive analytics in addressing the risk of material misstatement across various financial statement line items. This revision would provide auditors with clearer guidance and promote consistent adoption of data analytics as an important consideration for substantive analytical procedures, thereby enhancing audit quality and efficiency.

From our experience and observations, many mid to small firms struggle to transition to data-driven audit practices compared to larger global firms, often due to resource constraints and the lack of clear methodology guidance. To support the growth and evolution of these mid to small audit firms globally, there is a critical need for clearer, and more direct encouragement, for the use of data analytics in the industry. As the Board has observed, there has, and continues to be, an increasing use of technology-assisted tools by many audit firms over the years, which we are encouraged by the initiatives of leading firms. MindBridge is fully supportive of the Board initiatives to modernize audit standards in order to widen the use of data-driven and technology-assisted audit approaches across the mass industry. These initiatives will ultimately help audit firms in their journey to adopt efficient audit methodologies.

Guidance on the application of the requirements with regards to Data Analytical Tools
In-line with the discussion above, the proposed standard is absent of explicit acknowledgement or guidance on how data analytical tools should be integrated into the various stages of the proposed standard. Given the anticipated accelerated rise in the use of data analytical tools among auditors in the very near future, it is crucial for the standard to address this direction at the onset.

To ensure clarity and consistent application of the standard, we would recommend that the Board include an application section within the requirements that would provide illustrations, or guidance, on practical applications of data analytics used for substantive analytics.

Of note is the section on developing auditor expectation and its linkage to risk assessment procedures. AS 2110, *Identifying and Assessing Risks of Material Misstatement,"* contains the requirements and guides in the identification and assessment of risks of material misstatement in financial statements. The standard outlines the process auditors must follow to understand the entity and its environment, which includes the performance of analytical procedures. While AS 2110 does not specifically mandate the use of data analytics, it does provide flexibility for auditors to use various tools and techniques in their risk assessment procedures to understand the entity and related accounts. Data analytics offers powerful tools used to analyze large volumes of transactional data to understand financial trends and ratios helping auditors gain insight into these amounts. To improve the application of the requirements outlined in the proposed standard, adjusting the wording to explicitly acknowledge the linkage of performing substantive analytics with the risk assessment procedures would have greater results.

Data analytical tools also provide great assistance and insights to the auditors in investigating variances by stratifying populations, facilitating efficient and precise gathering of audit evidence.
Without more direct guidance, there is a high risk of inconsistent, or inaccurate, application of the requirements, that has the potential to undermine the effectiveness and efficiency of performing substantive analytics overall.

The shift towards a data-driven audit approach and increased use of technological tools is imminent. An implementation guide that incorporates these considerations is needed, and auditors would greatly benefit in their ability to deliver enhanced audit quality to their clients.

Use of company information in formulating expectations
An additional potential challenge with the current wording of the proposed draft is the restriction on auditors from using a company's amount, or information that is based on a company's amount, to develop auditor expectations. Without appropriate context and guidance, this can lead to unintended confusion. We agree with the Board that 'circular auditing' is an inappropriate method to perform an analysis, however the language used in the requirement doesn't effectively address the issue. To address the concern of circular auditing, it would be recommended that the Board include specific restrictions in order to prevent its occurrence. The use of "company's amount" doesn't fully meet the intention of the proposed standard and may discourage auditors from performing substantive analytics and revert back to traditional audit approaches, which enhances the risk of inefficient audits.

During the audit process, auditors receive an extensive information from the company that could inform expectations for substantive analytics. The general ledger (GL) is an example of the type of information routinely received by auditors. The GL is crucial for conducting data analysis across the entire population in order to establish expectations for the amount, or disclosure, being audited. Analyzing the movements, transactions and anomalies in the GL informs the auditor with key information that can be utilized for setting expectations based on precise and plausible relationships, alongside the auditor's cumulative knowledge of the company's business and environment throughout the audit process. It is reasonable to expect auditors to leverage existing information available to them, provided the auditor has performed the required accuracy and completeness test over the information (whether it was internally or externally obtained).

It would be also beneficial for the proposed standard to also recognize the value of using prior year audited information (currently missing under paragraph 06) for setting sufficiently plausible and predictable relationships. Auditors accumulate significant knowledge and audit evidence over recurring audits, providing a reliable basis for establishing precise and plausible relationships in the absence of contradictory current-year information.

MindBridge acknowledges the need for safeguards to ensure the reliability and relevance of all information used by auditors in any audit procedure. Restrictions on using company-provided information limits the effectiveness, and would not serve in advancing the overall intention of expanding the wider use of more substantive analytics. It is recommended that the Board points to the relevant sections of other audit standards for clarity of the desired objective.

Other considerations
The use and incorporation of substantive analytics in audits are crucial components in addressing the risk of material misstatement. This aspect of an audit response is inherently subjective, requiring auditors to develop independent and insightful expectations based on precise and plausible relationships they understand. Given its critical nature, significant involvement from senior members of the engagement team, such as the engagement leader, is warranted. It is essential that this expectation is established in the proposed standard.

Implementing a well-tailored data analytics process not only enhances audit quality, but also fosters the professional development of auditors in their careers by shifting the focus from traditional audit approaches. Developing proficiency in data analysis is increasingly vital for the auditor of the future. While technology won't replace auditors, auditors that embrace the capabilities of advanced data analytics will replace auditors that don't.

We trust that Board will adopt the recommendations highlighted above to ensure that the proposed standard remains relevant and addresses future audit demands by continuing to promote the skills required of future auditors.

If you require any clarifications of our response above and/or would like to further discuss, we would welcome the opportunity to meet.

We look forward to reviewing the future revision of the proposed standard and look forward to a closer collaboration with the Board in advancing the future of the audit profession.

Sincerely,

Wenzel Reyes

Wenzel Reyes
Senior Methodology Director
MindBridge Ai