KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

August 9, 2024

By email: comments@pcaob.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: *PCAOB Release No. 2024-006, Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards*

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2024-006, *Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards* (the Release). The Proposed Standard AS 2305, *Designing and Performing Substantive Analytical Procedures* included in the Release is herein referred to as the "Proposed Standard." We acknowledge the substantial effort and careful consideration devoted to the modernization of the standard, and we commend the Board for recognizing the potential benefits of an updated standard. We believe further clarification is necessary in the Proposed Standard and the accompanying Release to facilitate its implementation as a principles-based standard and essential for it to stay fit-for-purpose for future advancements and application of technology in relation to substantive analytical procedures (SAPs).

Use of Technology in Substantive Analytical Procedures

The dynamic landscape of technology presents both challenges and opportunities in designing and performing SAPs. While the Board has acknowledged in the Release that the Proposed Standard is intended to be principle-based and adaptable to evolving technology,[1] we have concerns that it may be overly prescriptive in nature and may not fully consider the current trends in using technology-assisted tools for SAPs. Even without considering artificial intelligence, we believe there are and will continue to be more ways to leverage emerging technologies in the performance of SAPs. Consequently, we believe the Proposed Standard's continued suitability and longevity may become challenged soon and that the Proposed Standard may inhibit further use of technology in the audit.

We request the Board offer additional clarity regarding the feasibility and implementation of the Proposed Standard when using emerging tools, such as the use of statistical and machine learning concepts to develop expectations at the individual transaction level or for classes of transactions. The Release includes reference to coefficients of correlation among several accounts as an example of valid comparisons used by auditors in a SAP.[2] We suggest the Board clarify how this type of non-monetary or

[1] See page 5 of the Release.
[2] See page 20 of the Release.

statistical analysis would be evaluated for compliance under the Proposed Standard in light of the prohibition on developing an expectation using the “company’s amount or information that is based on the company’s amount” (paragraph .07) and the requirement to determine a threshold relative to tolerable misstatement (paragraph .08). As discussed in the appendix to this letter, we believe further clarification is needed in the language of the Proposed Standard and the related Release to enable implementation as a principles-based standard as well as to be fit-for-purpose for future advancements in technology for SAPs.

Requirement for Examining External Information

We also have concerns regarding the lack of clarity in the proposed amendment to AS 2301, *The Auditor’s Responses to the Risks of Material Misstatements* (Proposed Amendment). Specifically, we are concerned about the ambiguity surrounding the requirement for auditors to examine relevant information when applying substantive procedures to accounts or disclosures that depend on information received by the Company from external sources. As discussed in the response to question 22, there is uncertainty about whether the proposal mandates the examination of external information even when such information is not used as audit evidence. Furthermore, there is confusion regarding the meaning of the terms “depends on information” and “examining relevant information,” resulting in a lack of clarity regarding the scope of applicability as well as nature and extent of audit procedures required under the Proposed Amendment. Additionally, when information from external sources is received electronically, we respectfully note the requirements for evaluating the reliability of such information do not appear to be aligned with the recently approved amendments to AS 1105, *Audit Evidence* within PCAOB Release No. 2024-007 *Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form* (Final Amendments related to Technology-Assisted Analysis). For example, it is unclear if AS 2301.40A also allows the auditor to perform tests of controls which is permitted under AS 1105.10A. As detailed in the appendix, we ask the Board to provide further clarification on several aspects of the Proposed Amendment so auditors can appropriately consider and consistently apply the requirements.

Other Observations on the Proposal

Ultimately, we believe a SAP, including a less precise SAP, when combined with other substantive audit procedures, may provide the best quality evidence compared to only a test of details in certain circumstances. This includes situations where a cash to revenue SAP would be appropriate, such as in a high-volume, low-dollar amount environment (e.g. retail) where testing a sample of lower dollar amount items is less informative than evaluating the population or attributes of the population as a whole. We believe with further clarification of specific provisions in the Proposed Standard, the Board can lay the groundwork for the use of appropriate and effective SAPs, thereby enhancing audit quality well into the future. In the appendix we have provided comprehensive responses to select questions on which the Board requested feedback.

Implementation Support

Consistent with our recommendations in response to prior standard-setting activities,[3] we recommend the Board develop an implementation infrastructure to support the effective and consistent execution of the Proposed Standard and other new PCAOB standards and rules. A new standard or rule in the financial reporting ecosystem is rarely adopted that does not raise questions about its author's intentions with respect to specific aspects of the standard or its application in a specific context. Further, while we always endeavor to identify any potential unintended consequences or implementation challenges timely when responding to the Board's proposed standards or rules, a complete identification of such matters is not possible until a standard or rule is implemented and applied to the varying circumstances of individual audit engagements. Without an implementation support infrastructure to enable effective and consistent execution upon implementation, prior to the issuance of auditors' reports under the new standard, firms are informed about the Board's interpretations post report issuance through the inspections process. We strongly believe the Board's mission and objective of investor protection is better served by enabling auditors to correctly implement a standard or rule consistent with the Board's intention before auditors' reports are issued rather than relying on post-issuance inspections to detect instances where a firm or engagement team misinterpreted the Board's intention. Consistent with our prior comments, we strongly encourage the Board to establish an implementation support infrastructure that would enable firms to raise questions and receive further clarity about the Board's intentions in connection with its standards or rules. The Board should consider the mechanisms in place by other regulators and standard-setters, such as the SEC's Office of the Chief Accountant's pre-clearance process.

* * * * *

We appreciate the opportunity to respond to the request for comments on the Release and welcome any opportunity to further discuss our observations.

Sincerely,

KPMG LLP

KPMG LLP

[3] For example, see KPMG's comment letter responses to the PCAOB's proposals around Firm and Engagement Metrics (comment letter dated June 6, 2024), Firm Reporting (comment letter dated June 6, 2024), Noncompliance with Laws and Regulations (comment letter dated March 18, 2024), and General Responsibilities of the Auditor in Conducting an Audit (comment letter dated May 30, 2023).

Appendix

Below are responses to select questions outlined in the Release for which we had specific input.

<u>Introduction and Objective</u>

5. Are the introduction and objective sections of the proposed standard clear and appropriate? If not, how should they be clarified?

The introductory paragraph .02 describes the elements of a SAP and uses "company's amount" which is defined as "a recorded amount or an amount derived from recorded amounts." The Release emphasizes that the newly introduced term is broader than the reference in existing AS 2305.[4] Considering the importance of this guidance in enabling auditors to apply evolving concepts in data science, we recommend the proposed AS 2305.02 explicitly acknowledge examples to align with the discussion in the Release. Therefore, we suggest updating proposed AS 2305.02 to state:

> ***.02*** *A substantive analytical procedure involves comparing 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.*<u>[2A]</u> *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.*
>
> *[2A]* *<u>This includes a range of comparisons, for example, ratio analysis, coefficients of correlation among several accounts, or other comparisons using technology-assisted analysis or technology-based tools</u>.*

Additionally, we believe the extant standard contains more clarity over certain aspects of designing and performing a SAP as compared to the Proposed Standard. Specifically, the sources of information that may be used for developing expectations (paragraph .05 of extant standard)[5] and the considerations for establishing the procedures to be applied to chosen inputs (paragraph .16 of extant standard),[6] each serve to inform auditors of examples of information and procedures that could be used in the development of SAPs. The removal of these clauses and the related examples in the Proposed Standard may lead to confusion regarding the continued appropriateness of such sources in developing an expectation, and if so, what considerations could impact their use. We recommend the inclusion of similar guidance in the Proposed Standard to provide auditors with clear direction and avoid potential ambiguity in practice.

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?

While the factors affecting precision as described in the Proposed Standard are clear and appropriate, we believe the level of disaggregation is another factor that directly impacts precision. An analytical procedure that is performed at a more disaggregated level is inherently more precise than one performed at a less disaggregated level. This view aligns with the recent amendment to AS 1105, *Audit Evidence,*

---

[4] See page 20 of the Release.

[5] For example, financial information for comparable prior periods, extrapolations from interim or annual data, and relationships among financial information within the period.

[6] For example, whether the data was subjected to audit testing in the current or prior year and whether sources within the entity were independent of those who are responsible for the amount being audited.

which states that the relevance of audit evidence also depends on "[t]he level of disaggregation or detail of information necessary to achieve the objective of the audit procedure." The precision of a procedure, which is dependent upon the plausibility and predictability of the relationship and the level of disaggregation, is what should influence the amount of the threshold rather than being the result of the amount of the threshold. For example, we do not believe a SAP based on a loosely predictable relationship would be precise simply because an auditor determined to apply a low level of acceptable threshold. Rather, we believe a disaggregated SAP based on highly predictable relationships is more precise and therefore the acceptable threshold would need to be established with consideration of the level of precision of the procedure (i.e. a threshold at the level of tolerable misstatement may not be appropriate if the SAP is inherently more precise).

Therefore, we recommend making the following update to the Proposed Standard as follows:

> ***.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. 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 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 <u>(iii) the level of disaggregation of the expectation</u> ~~(iv) the amount of the threshold for evaluating differences between the auditor's expectation and the company's amount~~. <u>The precision of a substantive analytical procedure influences the threshold for evaluating differences between the auditor's expectation and the company's amount.</u>*

9. Are there specific considerations related to evaluating the relevance and reliability of information used in a substantive analytical procedure, beyond those in AS 1105, that should be included in the proposed standard? If so, what are those considerations and how should they be incorporated in the proposed standard?

We are supportive of the integration of AS 2305 and AS 1105. We believe the reference to AS 1105 reduces inconsistencies between the two standards. Please also refer to Question 22 for comments on the Proposed Amendment to AS 2301.

<u>**Identifying a Sufficiently Plausible and Predictable Relationship**</u>

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?

We are supportive of the requirement to determine whether the relationships used in SAPs are sufficiently plausible and predictable as this is fundamental to the basis of such a procedure. However, the intent of the proposed requirement that the determination of plausibility and predictability of a relationship used in a substantive audit procedure "extend beyond inquiry" is unclear when SAPs are designed based on relationships that are well-known and supported by historical trends. The Board acknowledges in examples in the Release that SAPs are often used in areas like depreciation.[7] In a depreciation SAP, where the useful lives have not changed year over year and no material new additions exist, the plausibility and predictability of the relationship between depreciation expense, useful life, and cost of an asset is foundational to the knowledge of how depreciation expense is calculated in accordance with the

[7] See page 10 of the Release

accounting framework. What additional procedures would be necessary to establish whether the relationship is sufficiently plausible and predictable is not clear, and the proposed requirement to perform procedures beyond inquiry will impose requirements beyond those necessary to meet the 'must' requirement of the first sentence of paragraph 5.

We acknowledge the discussion in the Release that less extensive procedures may be required to determine the plausibility and predictability of relationships that are governed by more predictable factors.[8] For example, in a SAP that compares gross margin percentage from one year to another, we believe inspecting the historical trends and consideration of the current environment would constitute procedures extending beyond inquiry. Further, it is unclear when the performance of the procedure itself would be sufficient to satisfy this requirement, a possibility alluded to in the Release.[9] In the example of analysis of coefficients of correlation, we believe the performance of the procedure itself sufficiently demonstrates the relationship.

We suggest the Board modify the requirements for procedures to be performed to determine the relationship is sufficiently plausible and predictable to be more principles-based to align with the apparent intention of the Board as expressed in the Release. An example is updating proposed AS 2305.05 to state:

> ***.05*** *The auditor must identify the relationship or relationships to be used in the substantive analytical procedure and determine whether each such relationship is sufficiently plausible and predictable.* ~~*Making the determination should extend beyond inquiry.*~~

<u>Developing an Expectation</u>

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 fully support the prohibition of circular auditing in the development of a SAP. However, the definition provided in the Proposed Standard of "using the company's amount or information that is based on the company's amount," is not sufficiently clear without additional illustrative examples that outline designs considered appropriate or inappropriate under this definition. One area of uncertainty is whether deriving an expectation using the "company's amount or information that is based on the company's amount" would exclude the development of expectations using information used by the company to derive the recorded amount. Additionally, we request the Board to provide additional clarification on how the use of internal data would be considered in determining whether an expectation is based on "the company's amount or information that is based on the company's amount." For example, it is common practice in a SAP to use headcount to predict payroll expense,[10] subject to appropriate consideration of sufficiency and appropriateness under AS 1105 for the headcount input. In a more nuanced example, developing an expectation of revenue using quantities from shipping records, which have been tested for sufficiency and appropriateness under AS 1105, multiplied by prices taken from the company's internal price list (also subject to sufficiency and appropriateness testing under AS 1105), demonstrates similarities to using headcount as an input to developing an expectation, but also may raise concerns about circularity given the revenue amounts are derived directly from the price and quantity data elements. We ask the PCAOB to clarify which types of information related to the company's amount are intended to be included or

[8] See page 24 of the Release.
[9] See page 23 of the Release.
[10] See page 11 of the Release.

excluded from those that are deemed appropriate to develop an expectation under the proposed requirement.

We believe that providing additional clarity and illustrative examples in the definition of circular auditing would greatly enhance the understanding and would prevent auditors from inappropriately developing circular SAPs. This would enable auditors to consistently apply the standard and comply with its intended objectives.

Determining a Threshold for Evaluating Differences

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 support the inclusion of a requirement for the auditor to determine a threshold to evaluate differences between the auditor's expectation and the company's amount. However, a less prescriptive requirement for determining the threshold would be more consistent with the intended principles-based approach. Advancements in data science have enabled auditors to use technological tools and statistical analysis to determine the confidence level achieved by a SAP. Furthermore, when SAPs are used in conjunction with other substantive audit procedures that address the same risk of material misstatement related to the same account and assertion, auditors may be able to consider the precision across all audit evidence gathered. Therefore, we believe, when multiple substantive procedures are performed in this manner, the focus should be on the auditor's evaluation of the sufficiency and appropriateness of the audit evidence gathered from all substantive procedures performed.

Additionally, we believe further clarification is necessary for auditors to have a clear understanding of how to apply the guidance consistently in practice. Specifically, we request clarifications to address the following areas where the Proposed Standard is not clear:

- How the requirement to set the threshold at or below tolerable misstatement applies when performing separate SAPs for different components of a significant account or disclosure (disaggregated SAPs) is not clear. Specifically, we cannot discern if the Proposed Standard is intended to limit the aggregate threshold for all such disaggregated SAPs over the same significant account to tolerable misstatement. For example, if a property, plant, and equipment significant account is composed of four different asset classes, the auditor may design and perform a SAP related to depreciation expense as the aggregate of separately developed expectations within each of the four asset classes. In this example, it is not clear if the aggregate of the thresholds for each disaggregated SAP could exceed tolerable misstatement. While we believe aggregation risk should be considered, and the tolerable error of each individual SAP should include consideration of the size of the asset class in relation to the size of the significant account, the sum of the thresholds used within an account may not need to be limited to tolerable misstatement for the SAP to provide sufficient and appropriate audit evidence. Therefore, we recommend the PCAOB clarify how the threshold requirements apply when performing a disaggregated SAP.

- In relation to the broad range of comparisons performed using non-monetary amounts such as comparisons involving ratios developed from recorded amounts or coefficients of correlation among several accounts, as acknowledged in the Release,[11] we seek guidance whether a calculated level of confidence or other statistical means of evaluating the difference from expectation would be appropriate. As mentioned previously, auditors can use statistical analysis to determine the confidence level achieved by a SAP, which indicates the likelihood that a given difference is a potential misstatement, but is not the same as the concept of a single threshold set in monetary terms. Therefore, we believe that a prescriptive requirement to determine monetary differences contradicts the principles-based approach that allows for current and future advances in technology.

In summary, we encourage the Board to focus on flexible and scalable principles based on the nature of the SAPs performed, particularly when using technology-assisted analysis.

20. Are there other requirements related to designing and performing substantive analytical procedures that should be included in the proposed standard? If so, what are they? For example, existing AS 2305 includes provisions related to documentation of a substantive analytical procedure. Are there specific considerations related to the documentation of a substantive analytical procedure that are not included in AS 1215 but should be included in the proposed standard?

We agree with the approach to simplify AS 2305 by referring to AS 1215, *Audit Documentation* as the requirements in that standard are clear, sufficient, and can be appropriately applied to SAPs.

<u>Auditor Responsibilities to Examine Information From External Sources When Applying Substantive Procedures</u>

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?

While we agree auditors should evaluate the reliability of information received by the company from one or more external source(s), we believe this requirement should apply only **when such information is used as audit evidence**. The Proposed Amendment appears to apply whenever substantive audit procedures are applied to accounts or disclosures that depend on information received by the company from external sources, regardless of its use as audit evidence. In contrast, AS 1105.10 and AS 1105.10A, which specify requirements for evaluating the reliability of information produced by the company and external information provided by the company in electronic form, respectively, clearly define the scope of auditor's responsibilities by specifically focusing on information used as audit evidence. We believe AS 1105 accomplishes the objective of the requirement in AS 2301.40A and the addition of the new requirements in AS 2301.40A introduces ambiguity, as further discussed below.

- *Meaning of "depend on information the company received from one or more external source"*: Our concerns are further heightened by the ambiguity surrounding the meaning of "depend on information the company received from one or more external source" as stated within proposed AS 2301.40A. The Release provides certain examples such as revenue, cash, or financial instruments, which are accounts or disclosures that can be inferred to rely on information received by the company from external sources.[12] Considering these examples, it becomes evident that

[11] See page 20 of the Release.
[12] See page 33 of the Release.

almost all accounts or disclosures depend on information received by the company from external sources. This raises concerns about the overly broad scope of the new requirements, especially if they are applicable regardless of whether the auditor uses the information as audit evidence. This is particularly problematic when auditors' substantive procedures consist of SAPs, which may not always rely on information obtained from the Company. Accordingly, if the Board intends for auditors to examine information obtained by the company from external parties irrespective of its use as audit evidence, such a requirement may significantly reduce the likelihood that an auditor will use SAPs as a substantive procedure because it effectively requires some form of test of detail be applied to the account. We request the PCAOB to provide further clarification regarding the intended scope of these requirements to help auditors understand the specific parameters and applicability of the proposed AS 2301.40A.

- *Definition of "relevant information"*: The standard uses the term “relevant information” but is unclear whether the auditor should examine information that is relevant to the account or disclosure that depends on such information or relevant to the audit procedures performed by the auditor. For example, when auditing an accounting estimate, paragraph .07 of AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*, allows auditors to test the accounting estimate by developing an independent expectation. In this case, the account may depend on information the company received from an external source but that information may not be used by the auditor in developing an independent expectation. Therefore, a requirement to perform audit procedures over external information relevant to the account (i.e. used by management in developing an accounting estimate) would be duplicative to developing an independent expectation. While we consider all information we obtain during the audit, including contradictory information, we believe that only information that is relevant to the auditor’s substantive audit procedures should be subject to the requirements of the proposed AS 2301.40A.

- *Meaning of “examining”*: While the term “examining” is used in several other auditing standards, its precise meaning in the context of its use in AS 2301.40A remains unclear. AS 1105.15 (as amended by the Board in PCAOB Release No. 2024-007) indicates “inspection involves examining information,” therefore, the use of “examining” in AS 2301.40A appears to refer to “inspection”. Since AS 2301 is the standard relating to responses to risks of material misstatements, we do not interpret the requirement to “examine” would be fulfilled by risk assessment procedures that involve inspection of external information, such as when obtaining understanding of a process or performing a walkthrough, but we seek clarity in this regard. It also may not be practicable to perform examination when external information exists solely in electronic form, such as a customer order transmitted through electronic data interchange (EDI). Further, recently released AS 1105.10A prescribes specific audit procedures the auditor should perform when evaluating whether external information provided by the company in electronic form is reliable for purposes of the audit. That requirement includes the option to either test the information or test controls over receiving, maintaining, and processing the information. Therefore, we suggest the Board clarifies whether an auditor would comply with the requirements of “examining external information” by testing controls or whether “examining” under the requirements of proposed 2301.40A is an incremental requirement to inspect the information from external sources. Further, in our comment letter to the SEC in response to its Release No. 34-100430, *Notice of Filing of Proposed Rules on Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in* Electronic *Form*, we also expressed concerns regarding the lack of clarity on the nature and extent of procedures required to be performed pursuant to AS 1105.10A to address the risk of modification of electronic information.[13] We suggest that at the time of finalizing the Proposed Standard, the Board aligns the auditor's requirements related to information received by the company from external sources in AS 1105 and AS 2301 to provide such clarifications as requested above.

Economic Impact

29. Are there additional potential costs that should be considered? If so, what are they? Are the costs quantifiable?

Given the potential perceived limitations in applying advanced technology procedures as SAPs under the Proposed Standard, auditors may be reluctant to adopt current or future technology solutions that would enhance the quality of the audit, especially as technology evolves. The fixed and prescriptive nature of the Proposed Standard could discourage innovation and thereby impose a hidden cost in terms of achieving higher audit quality.

While use of technology-based tools in audit engagements can undoubtedly enhance audit quality, we have reservations regarding the assumption that continued advancements in technology will lead to a reduction in the auditors' cost to implement the Proposed Standard. The implementation of such tools necessitates the employment of individuals with specialized skills in data and technology, which incurs significant costs. Furthermore, as we strive to identify and incorporate innovative technologies and tools, there will be additional costs associated with research and development, implementation, and maintenance.

We acknowledge the Release recognizes the potential indirect costs that audited companies may bear if auditors pass on a portion of the increased engagement level variable costs. However, we believe the Release does not consider potential direct costs that companies may incur to provide additional information to the auditors, enabling them to fulfill their incremental responsibilities to test the reliability of external information that the company received from one or more external sources. Further the Release does not seem to consider the extent of information that is exclusively available to auditors in electronic form and does not exist in physical form which may present challenges to "examining" such information. Depending on the clarifications provided by the PCAOB regarding their intentions for the execution of auditor responsibilities under AS 2301.40A, companies may also be required to invest in the development and maintenance of robust internal controls, resulting in significant costs. Finally, we do not believe the economic impact of the incremental requirement in AS 2301.40A, specifically, has been sufficiently analyzed from a cost and benefit perspective. We believe the direct and indirect costs incurred by companies may not be modest taken together.

[13] See KPMG's comment letter dated July 23, 2024 in response to SEC Release No. 34-100430, Public Company Accounting Oversight Board; *Notice of Filing of Proposed Rules on Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form*.

Effective Date

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

Our observations are like those we previously expressed in comments to the PCAOB related to Proposed Release No. 2023-004 Proposed *Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form*.[14]

The Proposed Standard will require evaluation of, and changes to our audit methodology, guidance, and related tools as well as training for our professionals. Specifically, when evaluating potential changes to the firm's methodology and technology-based audit tools, we need sufficient time to conduct the analysis in accordance with applicable professional and legal requirements and firm's policies and procedures to appropriately fulfill our responsibilities under QC 1000, *A Firm's System of Quality Control*. Once these actions are complete, engagement teams will require sufficient time to successfully incorporate the new requirements into the audit plan and coordinate involvement with other auditors. Additionally, the pace and degree of change in standard-setting activity will require additional effort to assess the efforts necessary to evaluate and comply with collective changes to the other auditing standards.

We recommend the effective date be no earlier than fiscal years beginning on or after December 15 two years after the year in which the SEC approves the final standard. In addition, due to the interrelationship with the Proposed Standard to the *Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form*, we recommend the effective date of those amendments also be delayed and made effective concurrent with AS 2305. The Board acknowledged that commenters have stated that technology-assisted analysis continues to make classification of procedures between tests of details and substantive analytical procedures more challenging because some procedures may exhibit characteristics of both types of procedures.[15] However, the Board did not provide further guidance or examples to address this challenge. As such, we believe the amendments to AS 1105 and AS 2301 should be considered in conjunction with the adoption of AS 2305.

[14] See KPMG's response to question 24 within our comment letter to the PCAOB on Rulemaking Docket Matter No. 52.

[15] See PCAOB Release No. 2024-007, *Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form*.