

Office of the Secretary Phoebe W. Brown  
Public Company Accounting Oversight Board  
1666 “K” Street, NW  
Washington, DC 20006 – 2803

August 9, 2024

Cf. P.C.A.O.B. Rulemaking Docket Matter No. 056, comments, substantive analytical procedures, audit procedures, changes to AS 2305, AS 2301 and related, corresponding guidance

Dear P.C.A.O.B. Secretary Phoebe W. Brown :

The following are comments in response to questions listed in P.C.A.O.B. Rulemaking Docket Matter Number 056, the proposed AS 2305, ***Designing and Performing Substantive Analytical Procedures***. This commenter has read the text of this guidance, also known as P.C.A.O.B. Release Number 2024 – 06 (June 12, 2024.) This proposed standard would update and amplify provisions of the former AS 2305, ***Substantive Analytical Procedures***. The proposed standard among other provisions addresses technological analytics and technology – assisted tools and their usage within the topic of substantive analytical procedures. Responsibilities of the auditor vis – a – vis substantive analytical procedures and other procedures (tests of details), especially in the pre – audit and planning phases of the audit are of the logic and importance of the P.C.A.O.B. foundational standards of due professional care, reasonable assurance, professional skepticism, competence, independence and professional judgment. The development and use of substantive analytical procedures insofar as the role of the auditor is concerned stem from these standards. This commenter considers it a great privilege to comment on the proposed standard and to provide feedback hereby. Questions and answers are as follows :

**Question 1 : Does the description of current audit practice accurately depict the state of practice? If not, what clarifications should be made? Are there other aspects of current audit practice that we should consider?** Answer : Insofar as the role of substantive analytical procedures are concerned and other procedures (tests of details) and their role in the audit is

concerned, and to the best of this commenter's knowledge, the narrative accurately depicts the state of audit practice. One might clarify that the risk of material misstatement is dependent upon the risk that a misstatement or misstatements exist before consideration of any related controls as well as a risk that a material misstatement or misstatements will not be detected by internal controls. Material misstatements occur when the auditor cannot locate the existing error, omission, misinformation or misrepresentation, or given a misapplication of accounting principles. Substantive analytical procedures are not required but are used in the planning phase of the audit, throughout the audit as needed and in the final review stage of the audit. In the use of substantive analytical procedures, with control risk at a maximum value, the risk of material misstatement should be reasonably low. In order to be aware of errors, omissions, mistakes and even fraud in the financial statements, the auditor must design and implement proper substantive analytical procedures, exercise due professional care, professional skepticism, competence and professional judgment. The auditor also should be independent, and this commenter suggests that per discretion of the Board, some discussion of these be included in the proposed narrative of AS 2305, *Designing and Performing Substantive Analytical Procedures*.

**Question 2 : Are there other areas of concern relating to auditors' use of substantive analytical procedures that are not described above? If so, what are the areas of concern and what changes should be made to address them?** Answer : There is some uncertainty in the narrative concerning the quality of audit evidence, substantive analytical procedures and the level of supervision. At what level of audit management are the substantive analytical procedures actually supervised in order to maximize effectiveness and efficiency, reasonable assurance, professional judgment and other necessary factors? The proposed AS 2305 also minimally addresses substantive analytical procedures and "Management Discussion and Analysis" that is included in every public financial report whereas the role of analytics and a review of the M.D. & A. have become presently important.

**Question 3 : Does the proposal adequately describe the extent and frequency of auditors' use of substantive analytical procedures in audits? Please provide supporting information, such as the types of accounts generally tested using substantive analytical procedures and other relevant data.** Answer : It does not seem possible that the auditor use one form or template for the design and implementation of substantive analytical procedures in all audit engagements. The analytical procedures and substantive testing necessarily vary according to each engagement, and the design and implementation of substantive analytical procedures require different assessments of risks in each audit. Evaluations take place concerning audit procedures and audit evidence given substantive analytical procedures at different stages of the audit, e.g., the planning stage, when accounts and assertions are investigated and during the final review. With this in mind and given the overall burden on the auditor to provide assurance and

to be aware of any material misstatement(s), and per discretion of the board, one might call for management assurances in the pre – audit documentation as to the integrity and validity of select accounts identified by risk assessments as more important for examination.

The proposal does adequately describe the extent and frequency of auditors’ use of substantive analytical procedures in audits, including accounts involving estimates such as depreciation and amortization, the working capital accounts as they relate to revenue and operating expense accounts as well as interest expense (liabilities) and payroll expense.

**Question 4 : Does the proposal adequately describe how advancements in technology changed the extent and frequency of auditors’ use of substantive analytical procedures? Please provide details, including any information on the use of technology-based tools and the increase in the availability of data to perform substantive analytical procedures.**

Answer : Yes. The proposal adequately describes how advancements in technology changed the extent and frequency of auditors’ use of substantive analytical procedures, in this case the use of technology – assisted analysis and technology – based tools given the increased volume and availability of data and information in the performance of substantive analytical procedures.

**Question 5 : Are the introduction and objective sections of the proposed standard clear and appropriate? If not, how should they be clarified?** Answer : Yes. The introduction and objective sections of the proposed standard are clear and appropriate.

**Question 6 : Are the factors that affect the persuasiveness of audit evidence provided by substantive analytical procedures, specifically the precision of the procedure and the reliability of the information used in it, clear and appropriate? If not, how should they be clarified? Are there other factors that affect the persuasiveness of audit evidence provided by substantive analytical procedures? If so, what are they?** Answer : Yes. The illustrations about factors that affect the persuasiveness of audit evidence provided by substantive analytical procedures, specifically the precision of the procedure and the reliability of the information used in it are clear and appropriate. The content on precision, reliability and persuasiveness of information could be amplified considering the reasonableness of audit evidence from substantive procedures, and a “prudent person rule” in the event of possible misstatement due to error, omission or intentional omission, misapplication of accounting principles or fraud. The increased precision of substantive analytical procedures also means less generalization of the results of these procedures.

**Question 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?** Answer : Yes, the factors illustrated that affect precision are clear and appropriate. Additionally, It does appear that in some cases the precision of substantive analytical procedures will invite audit results requiring further substantive testing and examination.

**Question 8 : Are the requirements for evaluating the relevance and reliability of information used in a substantive analytical procedure in accordance with AS 1105 clear and appropriate? If not, how should they be clarified?** Answer : Yes. The requirements for evaluating the relevance and reliability of information used in a substantive analytical procedure in accordance with AS 1105, *Audit Evidence*, are clear and appropriate. Also, the relevance and reliability of the results of substantive analytical procedures given the role of auditor judgment should encompass a "prudent person rule" in examination of reasonableness in the evaluation of results.

**Question 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?** Answer : No. There are no overriding, 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. The plausibility and predictability of relationships in the development of expectations about accounts and financial statement assertions appear to be of primary importance in this and should be highlighted for the auditor.

**Question 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, now should it be clarified?** Answer : Yes. 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 is clear and appropriate.

**Question 11 : Is the proposed requirement that the auditor take into account all relevant information of which the auditor is aware when determining whether a relationship is sufficiently plausible and predictable clear and appropriate? If not, how should it be**

**clarified?** Answer : Yes. This is clear and appropriate, and per discretion of the Board should be part and parcel of due diligence and “prudent person rule” requirements for the auditor along with the requirement for the auditor’s understanding of the company and related business environment.

**Question 12 : Are the examples of events, conditions, and company activities that are included in proposed paragraph .06 described clearly and appropriately? Are there additional events, conditions, or company activities that may affect the plausibility and predictability of a relationship that should be included in the proposed standard as examples? If so, what are they? If the examples of events and conditions are not clear, how should they be clarified?** Answer : Yes. The examples of events, conditions and company activities included are described clearly and appropriately, though the factors discussed appear to have to do with macro and external issues to the company. For this commenter, therefore, substantive analytical procedures and related audit activities given relationships between company accounts, assertions, and expectations as developed in view of examination or testing are not intended for those parties uninformed or not familiar with the relationships, accounts, nor management’s assertions about the company and the company’s business environment.

**Question 13 : Is the proposed requirement for the auditor to develop an expectation clear and appropriate? If not, what changes should be made?** Answer : Yes. The proposed requirement for the auditor to develop an expectation is clear and appropriate.

**Question 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?** Answer : Yes. The proposed change to avoid circular auditing is clear and appropriate. This commenter believes this question should also address objectivity in addition to circular auditing in that the use of the company’s amount or information could be interpreted as impairing objectivity.

**Question 15 : Are there other factors that the auditor should consider when developing their expectation? If yes, what are they?** Answer : No. This commenter is not aware of other factors that the auditor should consider when developing their expectation.

**Question 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?** Answer : Yes. The proposed requirement that the auditor determine a threshold to evaluate the difference between the auditor's expectation and the company's amount is clear and appropriate.

**Question 17 : Are the proposed requirements for evaluating the difference between the auditor's expectation and the company's amount clear and appropriate? If not, what changes should be made?** Answer : Yes. The proposed requirements are clear and appropriate, and certainly along with this guidance there should be applicable due diligence language.

**Question 18 : Are there other requirements that should be included within the proposed standard regarding evaluating differences or when the auditor encounters the scenarios described in the standard?** Answer : No. This commenter is not aware of other requirements that should be included within the proposed standards regarding evaluating differences or when the auditor encounters the scenarios described in the standard.

**Question 19 : Are there other scenarios the auditor may encounter when evaluating differences that should be addressed by the proposed standard?** Answer : No. This commenter has observed in the proposed standard a thoroughgoing examination of possible scenarios involving informational differences in results of designing and performing substantive analytical procedures.

**Question 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?** Answer : No. This commenter does not believe there should be other requirements related to designing and performing substantive analytical procedures that should be in the proposed standard. However, this commenter does believe that substantive analytical procedures should in their highlighting of financial data and non – financial data, emphasize investigation of the company's financial condition and cash flows. The role of substantive analytical procedures in reducing the risks of material misstatement is more effective and efficient with respect to accounts, amounts, assertions and related expectations as to present and future production of income from working capital and assets, and liabilities; as well as differences in the financial position of the company concerning the purpose and results of those analytical procedures.

**Question 21 : Is the proposed amendment to clarify the description of analytical procedures clear and appropriate? If not, what changes should be made?** Answer : Yes. The proposed amendment to clarify the description of analytical procedures is clear and appropriate, though the criticality of assigning data risks and risks of the company's information environment is possibly in order.

**Question 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?** Answer : Yes. This activity which encompasses analytical procedures and confirmations is clear and appropriate, though possible additional guidance is needed in view of any lacking of financial information, or information of any quality, or information important to the audit that was not previously evident. When the auditor evaluates difficulties and differences between information and expectations that exceed tolerable misstatement there is room for guidance on the nature, timing and extent of the examination of data and information through tests of details.

**Question 23 : Are there examples where substantive procedures applied to accounts or disclosures that depend on information received by the company from external sources could be effective in addressing assessed risks of material misstatement by examining only information produced by the company? When providing examples, please provide as much detail as possible, including a brief description of the account, relevant assertion, design of the substantive procedure, and discussion of how the procedure addresses the specific likely source of potential misstatement.** Answer : This commenter is not aware of further examples where substantive procedures applied to accounts or disclosures that depend on information received by the company from external sources could be effective in addressing assessed risks of material misstatement by examining only information produced by the company. This not only has to do with expectations, relationships between accounts and assertions. It is necessary to uphold the level of assurance of the financial statement audit -- substantive procedures should not be used to examine only information produced or provided by the company.

**Question 24 : We request comment generally on the baseline for evaluating the economic impacts of the proposal. Is there any additional information regarding auditors' use of substantive analytical procedures or are there additional academic studies that we should consider?** Answer : This commenter does not believe there is any additional formal information

regarding auditors' use of substantive analytical procedures, nor has this commenter found any related academic studies on this subject matter specifically. A separate impact of this proposal has to do with the principles – based nature of the proposal and its examination on the company level (microeconomic or entity level) of what appears to have become a data – centric business, financial and accounting environment. The auditor is not a data scientist and while the auditor should be aware of data issues, and possibly software issues such as the flow of data and records through an enterprise resource planning system process, the auditor does not have responsibility for data integrity, nor for the condition of the data, data tables, information sets and so on that are the responsibility and property of management in the auditor's investigation.

**Question 25 : We request comment generally on the prevalence of substantive analytical procedures in audits conducted under PCAOB standards. Please provide as much detail as possible, including data on the use of substantive analytical procedures and the types of accounts on which such procedures are generally performed.** Answer : This commenter overall believes substantive analytical procedures in audits conducted under P.C.A.O.B. standards are used and are more sufficient and important when control risk is maximized and when the risk of material misstatement is actually quite low. In this way, the precision of the substantive procedures is better, and given data availability and technological – assisted and analysis tools, the auditor can form expectations, review accounts and relationships and assertions given larger volumes of data. This commenter also believes substantive analytical procedures as performed considering future benefits and future obligations, and cash flows of the company are especially important in the planning phase of the audit.

**Question 26 : The Board requests comment generally on the need for rulemaking. Should we consider any additional arguments, academic studies, or data related to the need for rulemaking?** Answer : While this commenter believes the Board should set down in document form the requirements and related considerations for substantive analytical procedures and other substantive procedures (tests of details) to the most complete extent possible in consideration of the financial statement audit, documentation and guidance thereby should not be substitute for the due professional care, skepticism, competence, and professional judgment of the auditor. These requirements in the design, implementation and application of substantive analytical procedures are to accomplish the objectives of the audit apart from the status or treatment of data volumes, or other forms of data analysis in the audit environment including integration with other rules and standards that enhance the usability of AS 2305.



**Question 27 : Are there additional potential benefits that should be considered? If so, what are they? Are the benefits quantifiable?** Answer : No. This commenter does not believe there are additional potential benefits that at present should be considered.

**Question 28 : Are there additional academic studies or data related to the potential benefits of the proposal that we should consider? If so, please provide citations or other reference information for such studies and data.** Answer : This commenter was not able to find any additional academic studies or data related to the potential benefits of the proposal that should be considered. In the event that a study presents itself or this commenter, upon looking further, finds an appropriate and applicable academic study, this commenter will inform the Board.

**Question 29 : Are there additional potential costs that should be considered? If so, what are they? Are the costs quantifiable?** Answer : The issues of further costs of implementation of AS 2305 appear to depend on the scope of audit objectives the substantive analytical procedures meet successfully, when and how, and at what scale these substantive analytical procedures will be performed during the audit, and at what stage of the audit they are and will be most effective. This commenter agrees with the Board as stated in the proposal that a logical standard is easier from a compliance perspective and its implementation less costly given the time and effort saved by its reasonable and again logical provisions that are to address areas of risk and firm practices and procedures in designing, implementing and performing relevant analytical procedures.

**Question 30 : Are there additional academic studies or data related to the potential costs of the proposal that we should consider? If so, please provide citations or other reference information for such studies and data.** Answer : This commenter was not able to find an applicable nor relevant study concerning the potential costs of AS 2305. In the event that a study presents itself or this commenter, upon looking further, finds an appropriate and applicable academic study, this commenter will inform the Board.

**Question 31 : The Board requests comment generally on the potential unintended consequences of the proposal. Are the responses to the potential unintended consequences discussed in the release adequate? Are there additional potential unintended consequences that the Board should consider? If so, what responses should be considered?** Answer : There do not appear to be any potential unintended consequences of the proposal that would subtract from its potential benefits. The responses to the potential unintended consequences in

the release appear to be adequate, and this commenter is not aware of additional potential unintended or negative consequences. The auditor must beware, however, of over - reliance on substantive analytical procedures when control risk is below a maximum amount and the risk of material misstatement is greater. The consequences of this are results of procedures that lack precision and that could result in the auditor overlooking a material misstatement.

**Question 32 : Are there any other economic impacts we did not describe above that are relevant to the Board’s consideration?** Answer : No. There are no further immediate issues relevant to the Board’s consideration with respect to the economic impacts and related content discussed in the proposal.

**Question 33 : Are there additional academic studies or data related to the potential unintended consequences of the proposal that we should consider? If so, please provide citations or other reference information for such studies and data.** Answer : No. There do not appear to be additional academic studies nor data related to the potential unintended consequences of the proposal that the Board should consider. In the event that a study presents itself or this commenter, upon looking further, finds an appropriate and applicable academic study, this commenter will inform the Board.

**Question 34 : Are any of the alternative approaches discussed, or any other approaches, preferable to the approaches that are being proposed to address auditors’ use of substantive analytical procedures to obtain audit evidence? If so, what are they and what reasons support one or more alternative approaches over the proposed approaches?**

Answer : The principles – based guidance of this proposal by the Board in these circumstances is best given varietal audit practices that differ across audit firms, as well as different approaches to substantive analytical procedures and testing across firms that have no uniform preferable approach. It is important that the auditor consider, and form expectations, with due care and consideration, and with appropriate risk assessments and expectations, the analysis of accounts, assertions and relationships, etc., with the desired optimal precision in designing, implementing and performing substantive analytical procedures.

**Question 35 : Proposed AS 2305 does not change the existing requirements of AS 2301, that to address significant risks, including fraud risks, the auditor should perform tests of details specifically responsive to the assessed risk. Should changes be made to this existing requirement? If yes, what changes should be made and are there examples where a substantive analytical procedure would be just as or more effective than a test of details in**

**addressing significant risks? When providing examples, please provide as much detail as possible, including a brief description of the account, relevant assertion, design of the substantive analytical procedure, and discuss how the procedure addresses the specific likely source of potential misstatement.** Answer : The interaction between AS 2305 and AS 2301 (*The Auditor's Responses to the Risks of Material Misstatement*) as interpreted from the proposal does not call for additional narrative changes that would require the auditor to respond differently than at present to risks of material misstatement that are significant, including fraud risks. AS 2301 guidance calls for the auditor to perform substantive procedures specific to assessed risks, including the risk of fraud. Though this comprises a very general consideration overall, substantive procedures as called for in AS 2301 are different insofar as precision is concerned to address the risk of material misstatement and fraud (not to mention the efforts made to determine and to assess fraud risk). Precise substantive analytical procedures in combination with tests of details in high – risk areas can provide sufficient audit evidence. In the event of a suspicion of fraud, further substantive and other testing in suspected areas is in order and will address the risk of material misstatement and fraud.

**Question 36 : Should proposed AS 2305 explicitly address aspects of the use of technology when designing and performing substantive analytical procedures, including situations where the use of technology might improve the quality of audit evidence obtained from such procedures? If so, how?** Answer : The use of technology and technology – based tools will increase the precision of substantive analytical procedures and will reduce regulatory uncertainty, if any, invited by the implementation and performance of such procedures. Technology – assisted audit tools and analytics, be they of the nature of substantive analytical procedures or tests of details, will potentially improve the quality of sufficient audit evidence overall and will increase the availability of company data as a disaggregated resource for analysis. Along with technology – based analysis tools, substantive procedures when properly done reduce the chances of circular auditing and any over – reliance on company – produced information. This will avoid the design of analytical procedures given unnecessary and unclear relationships between accounts and amounts, errors, omissions as mistakes and will address risks and relationships between accounts, amounts and assertions that are plausible and predictable. Technology – assisted audit processes are more prevalent today, and this includes not only in the performance of analytical procedures, but also in data analytics among auditors. Technology – assisted auditing and data analysis in auditing considerations of the design, implementation, and performance of substantive audit procedures presently adequately address circumstances where the use of technology might improve the quality of audit evidence from such procedures.

**Question 37 : The Board requests comment generally on the analysis of the impacts of the proposal on EGCs. Are there reasons why the proposal should not apply to audits of**

**EGCs? If so, what changes should be made so that the proposal would be appropriate for audits of EGCs? What impact would the proposal likely have on EGCs, and how would this affect efficiency, competition, and capital formation?** Answer : There are no tangible reasons why the proposal should not apply to audits of E.G.C.'s. A possible economic impact of the proposal for E.G.C.'s is the additional costs of compliance incurred by the auditor that could be passed on to companies. Especially for E.G.C.'s the substantive audit procedure standard will provide a better, more precise picture of the financial condition of the company (given the understanding of the company's business and economic environment by the auditor and other factors), possibly resulting in better reputations for auditors and higher valuations for E.G.C.'s. In view of higher quality audits and possible increased valuations of the company given the better precision of the audits resulting from better financial statement representations, E.G.C.'s will have more competitive market positioning and more capital formation possibly given more revenues and augmentation in their ongoing business activities.

**Question 38 : Would the proposed effective date present challenges for auditors? If so, what are those challenges, and how should they be addressed?** Answer : The proposed effective date of AS 2305 will present some marginal challenges for the auditors including additional training programs for affiliated firms, possibly employing new staff, software technology upgrades or implementations, possible lowering of entry costs for new audit firms, updating of firms' audit best practices on adopting the new AS 2305 and more. These considerations will be accompanied by possible decisions about whether to pass along operating costs due to the new AS 2305 to customers. Yet the promise and possibilities of the new AS 2305 call for increases in audit quality in view of technological and related developments including new standards as well as bettering the reputation of audit firms.

By,

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