

## COMPARISON OF PROPOSED AS 2305 WITH ISA 520 AND AU-C SECTION 520

On June 12, 2024, the Public Company Accounting Oversight Board proposed amendments to its standards, as reflected in *Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards* (“Proposed AS 2305”), PCAOB Release No. 2024-006.

This comparison document was prepared by the staff of the Office of the Chief Auditor as a reference tool for the proposed amendments to AS 2305, *Designing and Performing Substantive Analytical Procedures*, presented in Appendix 1 of the PCAOB release. This document represents the views of PCAOB staff and not necessarily those of the Board. It is not a rule, policy, or statement of the Board.

The table below maps the proposed rule text with the analogous requirements of the following standards issued by the International Auditing and Assurance Standards Board (IAASB) and the Auditing Standards Board (ASB) of the American Institute of CPAs:

- IAASB Standards – International Standard on Auditing 520, *Analytical Procedures* (“ISA 520”); and
- ASB Standards – AU-C Section 520, *Analytical Procedures* (“AU-C 520”).

The comparison may not represent the views of the IAASB or ASB regarding the interpretation of their standards. Additionally, the IAASB and ASB requirements are accompanied by application and other explanatory materials that provide further guidance on those standards. Because these materials are not part of the requirements, they are not included in the comparison.

### Introduction

Proposed AS 2305	ISA 520	AU-C 520
.01 This standard establishes requirements regarding designing and performing substantive analytical procedures. <sup>1</sup> AS 2301, <i>The Auditor’s Responses to the Risks of Material Misstatement</i> , requires the auditor to design and implement appropriate responses that address the assessed risks of material misstatement. This may include using substantive analytical procedures to address the assessed risks of material misstatement for	1. This International Standard on Auditing (ISA) deals with the auditor’s use of analytical procedures as substantive procedures (“substantive analytical procedures”). It also deals with the auditor’s responsibility to perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. ISA 315 (Revised) <sup>1</sup> deals with the use of analytical	.01 This section addresses the auditor's use of analytical procedures as substantive procedures (substantive analytical procedures). It also addresses the auditor's responsibility to perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. Section 315A, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material</i>

certain relevant assertions of significant accounts and disclosures. Substantive analytical procedures are appropriate only when designed and performed, alone or in combination with other audit procedures, at a level of precision sufficient to respond to an assessed risk of material misstatement.<sup>2</sup> When designed and performed appropriately, substantive analytical procedures can provide relevant and reliable audit evidence.

<sup>1</sup> Paragraph .21 of AS 1105, *Audit Evidence*, describes analytical procedures addressed under PCAOB standards. Substantive analytical procedures differ from other types of analytical procedures that are required under PCAOB standards to achieve various objectives throughout the audit, in that they are performed to respond to assessed risks of material misstatement.

<sup>2</sup> See AS 2301.08, .37, .39, and .40. See also, AS 2301.11 and .13, which provide that when addressing significant risks, including fraud risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks.

procedures as risk assessment procedures. ISA 330 includes requirements and guidance regarding the nature, timing and extent of audit procedures in response to assessed risks; these audit procedures may include substantive analytical procedures.<sup>2</sup>

<sup>1</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 6(b).

<sup>2</sup> ISA 330, *The Auditor's Responses to Assessed Risks*, paragraphs 6 and 18.

6. The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity. (Ref: Para. A17–A19)

*Misstatement*, addresses the use of analytical procedures as risk assessment procedures (which may be referred to as analytical procedures used to plan the audit).<sup>1</sup> Section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, addresses the nature, timing, and extent of audit procedures in response to assessed risks; these audit procedures may include substantive analytical procedures.<sup>2</sup>

<sup>1</sup> Paragraph .06b of section 315A, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

<sup>2</sup> Paragraphs .06 and .18 of section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

.06 The auditor should design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion about whether the financial statements are consistent with the auditor's understanding of the entity. (Ref: par. .A25–.A27)

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<p>.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. 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.</p>	<p>4. For the purposes of the ISAs, the term “analytical procedures” means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. (Ref: Para. A1–A3)</p>	<p>.04 For the purposes of generally accepted auditing standards, the following term has the meaning attributed as follows:</p> <p>Analytical procedures. Evaluations of financial information through analysis of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass such investigation, as is necessary, of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. (Ref: par. .A2–.A6)</p>

## Objective

Proposed AS 2305	ISA 520	AU-C 520
<p>.03 The auditor’s objective when designing and performing a substantive analytical procedure is to obtain relevant and reliable audit evidence about one or more relevant assertions of a significant account or disclosure.</p>	<p>3. The objectives of the auditor are:</p> <p>(a) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and</p> <p>(b) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor’s understanding of the entity.</p>	<p>.03 The objectives of the auditor are to</p> <p><i>a.</i> obtain relevant and reliable audit evidence when using substantive analytical procedures and</p> <p><i>b.</i> design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion about whether the financial statements are consistent with the auditor's understanding of the entity. (Ref: par. .A1)</p>

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

Proposed AS 2305	ISA 520	AU-C 520
<p>.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.<sup>3</sup> 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 (iii) the amount of the threshold for evaluating differences between the auditor’s expectation and the company’s amount.</p> <p>Note: When designing and performing a substantive analytical procedure, the auditor should evaluate the relevance and reliability of information used in accordance with AS 1105. This includes, when such information is produced by the company, testing the accuracy and completeness of the information or testing controls over the accuracy and completeness of that information.</p> <p><sup>3</sup> See AS 2301.09 and .37.</p>	<p>5. When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with ISA 330,<sup>3</sup> the auditor shall: (Ref: Para. A4–A5)</p> <p>(a) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions; (Ref: Para. A6–A11)</p> <p>(b) Evaluate the reliability of data from which the auditor’s expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation; (Ref: Para. A12–A14)</p> <p>(c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and (Ref: Para. A15)</p> <p>(d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph 7. (Ref: Para. A16)</p> <p><sup>3</sup> ISA 330, paragraph 18.</p>	<p>.05 When designing and performing analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with section 330, the auditor should<sup>3</sup> (Ref: par. .A7-.A9)</p> <p>a. determine the suitability of particular substantive analytical procedures for given assertions, taking into account the assessed risks of material misstatement and tests of details, if any, for these assertions; (Ref: par. .A10–.A16)</p> <p>b. evaluate the reliability of data from which the auditor’s expectation of recorded amounts or ratios is developed, taking into account the source, comparability, and nature and relevance of information available and controls over preparation; (Ref: par. .A17-.A20)</p> <p>c. develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise (taking into account whether substantive analytical procedures are to be performed alone or in combination with tests of details) to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and (Ref: par. .A21-.A23)</p>

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		<p>d. determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph .07 and compare the recorded amounts, or ratios developed from recorded amounts, with the expectations. (Ref: par. .A24)</p> <p><sup>3</sup> Paragraph .18 of section 330</p>
<p><b>Identifying a Sufficiently Plausible and Predictable Relationship</b></p> <p>.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.</p> <p>.06 Relationships used in the substantive analytical procedure must be sufficiently plausible and predictable to achieve the objective of the procedure. When determining whether a relationship is sufficiently plausible and predictable, the auditor should take into account all relevant information of which the auditor is aware, including information obtained from:</p> <p>a. The auditor’s understanding of the company and its environment,<sup>4</sup> and</p>		

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<p>b. Other procedures performed in the audit and in reviews of interim financial information.</p> <p>Note: Events, conditions, and company activities that may affect the plausibility and predictability of a relationship, include specific unusual transactions or events, accounting changes, business changes, or external factors, such as general economic conditions and industry factors.</p> <p><sup>4</sup> See paragraphs .07-.17 of AS 2110, <i>Identifying and Assessing Risks of Material Misstatement</i>, which describes events, conditions, and company activities that might reasonably be expected to have a significant effect on the risks of material misstatement.</p>		
<p><b>Developing an Expectation</b></p> <p>.07 The auditor should develop an expectation of the company’s amount based on the relationship(s) identified pursuant to paragraphs .05 and .06. The auditor may not develop the expectation using the company’s amount or information that is based on the company’s amount.</p>	<p>See above paragraph 5c. of ISA 520.</p>	<p>See above paragraph 5c. of AU-C 520.</p>
<p><b>Determining a Threshold Evaluating Differences</b></p> <p>.08 The auditor should determine a threshold for evaluating the difference between the auditor’s expectation and the company’s amount. The amount of the threshold should</p>	<p>See above paragraph 5d. of ISA 520.</p>	<p>See above paragraph 5d. of AU-C 520.</p>

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<p>be set at or below tolerable misstatement,<sup>5</sup> taking into account the nature of the account or disclosure or, where applicable, the component of the account or disclosure.<sup>6</sup> When determining the threshold, the auditor should address the risk that the difference between the auditor’s expectation and the company’s amount represents a misstatement that would be material to the financial statements, individually or in combination with other misstatements within the account or disclosure, considering the possibility of undetected misstatements.</p> <p><sup>5</sup> See paragraph .08 of AS 2105, <i>Consideration of Materiality in Planning and Performing an Audit</i>. “The auditor should determine tolerable misstatement at an amount or amounts that reduce to an appropriately low level the probability that the total of uncorrected and undetected misstatements would result in material misstatement of the financial statements.”</p> <p><sup>6</sup> The auditor may perform a substantive analytical procedure for a component of a significant account or disclosure because the component might be subject to significantly differing risks. See AS 2110.63.</p>		
<p><b>Differences Between the Auditor’s Expectation and the Company’s Amount</b></p> <p>.09 If the difference between the auditor’s expectation and the company’s amount exceeds the threshold described in</p>	<p>7. If analytical procedures performed in accordance with this ISA identify fluctuations or relationships that are inconsistent with other relevant information or</p>	<p>.07 If analytical procedures performed in accordance with this section identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected</p>

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<p>paragraph .08, the auditor should evaluate the difference, which includes performing audit procedures to determine whether there is a misstatement.<sup>7</sup> These procedures should extend beyond inquiry.</p> <p><sup>7</sup> See paragraph .12 of this standard for situations in which the auditor identifies information that is relevant to the auditor's expectation or threshold for evaluating differences and of which the auditor was not aware when developing the expectation or threshold.</p>	<p>that differ from expected values by a significant amount, the auditor shall investigate such differences by:</p> <ul style="list-style-type: none"> <li>(a) Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and</li> <li>(b) Performing other audit procedures as necessary in the circumstances. (Ref: Para. A20–A21)</li> </ul>	<p>values by a significant amount, the auditor should investigate such differences by</p> <ul style="list-style-type: none"> <li>a. inquiring of management and obtaining appropriate audit evidence relevant to management's responses and</li> <li>b. performing other audit procedures as necessary in the circumstances. (Ref: par. .A28–.A29)</li> </ul>
<p>.10 When the auditor determines that there is a misstatement, the auditor should evaluate the misstatement in accordance with AS 2810, <i>Evaluating Audit Results</i><sup>8</sup> and, in an integrated audit, AS 2201, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>.<sup>9</sup></p> <p><sup>8</sup> See AS 2810.10-.23, which discusses accumulating and evaluating identified misstatements.</p> <p><sup>9</sup> See paragraph AS 2201.B8 for the auditor's responsibilities to evaluate the effect of findings of the substantive auditing procedures performed on the effectiveness of internal control over financial reporting.</p>		
<p>.11 If, after performing the procedures described in paragraph .09, the auditor is unable to determine whether there is a misstatement, the auditor should determine the effect on the audit. This includes:</p>	<p>See above paragraphs 7a and 7b. of ISA 520.</p>	<p>See above paragraph .07a and .07b. of AU-C 520 above.</p>



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<p>a. Determining whether to revise the risk assessment in accordance with AS 2110.74,<sup>10</sup> and</p> <p>b. Performing the audit procedures necessary to obtain sufficient appropriate audit evidence regarding the relevant assertion(s).</p> <p><sup>10</sup> See AS 2110.74 for the auditor’s responsibilities for revising the risk assessment and planned audit procedures.</p>		
<p>.12 As part of performing the procedures described in paragraph .09, the auditor may identify relevant information of which the auditor was not aware when initially designing the substantive analytical procedure. When such information is identified, the auditor should:</p> <p>a. Evaluate the reliability of the information in accordance with AS 1105;</p> <p>b. Determine whether to modify the design of the substantive analytical procedure in accordance with paragraphs .04-.08 of this standard or perform other substantive procedures to address the assessed risk; and</p> <p>c. Determine whether to revise the risk assessment in accordance with AS 2110.74.</p>		