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July 23, 2024

By email: rule-comments@sec.gov

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Reference No. PCAOB-2024-03

**SEC Release No. 34-100430, Public Company Accounting Oversight Board (PCAOB or 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 (the Release)***

Dear Madam Secretary:

We appreciate the opportunity to respond to the Securities and Exchange Commission's (SEC or Commission) request for public comment on the Release. The amendments to AS 1105, *Audit Evidence*, and AS 2301, *The Auditor's Responses to the Risks of Material Misstatement* included in the Release are herein referred to as the Final Amendments. We acknowledge and are supportive of the PCAOB's effort for modernizing requirements related to certain aspects of designing and performing audit procedures that involve technology-assisted analysis to support the objective of improving audit quality.

We support the PCAOB's adoption of Final Amendments to its auditing standards. However, we want to bring to your attention concerns regarding the lack of clarity upon implementation of the Final Amendments that can lead to inconsistency in execution of audit procedures which can reduce audit quality and compromise the fulfilment of SEC's mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. These concerns are heightened as the PCAOB does not have a formal implementation support infrastructure in place to enable consistent and effective implementation. We have commented about the importance of such infrastructure to the PCAOB in their recent standard setting activities.¹

The importance of strong implementation guidance

The ability for auditors to consistently execute audits in accordance with the Board's intentions is important to investor protection. We therefore believe a strong implementation infrastructure is necessary to provide guidance to enable consistent and high-quality execution of the standards without needing to rely on the PCAOB's inspection process to gain insights into the Board's intended expectations regarding compliance with their standards. We have identified several requirements within the Final Amendments that would benefit from the ability to seek clarity of the Board's intentions prior to implementation.

The risk of modification of electronic information received by the company used as audit evidence

AS 1105.10A(b) prescribes that an auditor should test electronic information received by the company from external sources and used as audit evidence to determine whether it's been modified, or test the

¹ For example, see KPMG's comment letter responses to the PCAOB's proposals around Firm and Engagement Metrics, Firm Reporting, Noncompliance with Laws and Regulations (comment letter dated March 18, 2024), and General Responsibilities of the Auditor in Conducting an Audit.

company's controls over receiving, maintaining, and processing the information. Testing for any modifications of such information as an alternative to testing the company's controls was a significant change from the Proposal that was not exposed for public comment. The option to test such information for whether it has been modified by the company can be helpful when the company does not have relevant controls in place or such controls are deemed ineffective.

We interpret the requirement to test for any modifications to mean that the auditor must compare the electronic information to source records.² When electronic information is used as audit evidence, under extant AS 1105, the auditor evaluates the reliability of the information in accordance with AS 1105.08 and .09. The auditor may conclude that there were no conditions that indicated the electronic information may not be authentic or it has been modified, and therefore the auditor would be able to use the electronic information maintained in the company's records as audit evidence in accordance with AS 1105.09. However, AS 1105.10A appears to presume the risk over modification of the electronic information is always present and requires an audit response. Our interpretation is that the Final Amendments are applicable irrespective of the conclusions reached in accordance with AS 1105.08 and .09. The auditor would now be required to obtain source records to determine whether the electronic information has been modified by the company. However, companies today often obtain or retain information in electronic form such that no physical copies or original records exist or are maintained. Therefore, the auditor would be required to test the company's controls over receiving, maintaining, and processing the electronic information.

Whether internal controls exist depends on the company's determination of whether they are necessary for the company to comply with its legal and regulatory requirements as companies have no current obligation to establish controls solely to satisfy requirements of its auditor. If the company did not explicitly identify a risk of material misstatement related to the **risk of modification** (emphasis added) of the electronic information, it would likely not have designed and implemented specific controls to address the modification risk as part of its internal control over financial reporting. Further, even when such controls exist, auditors may encounter circumstances where they are ineffective.

Auditors would greatly benefit by having clarity of how the Board expects the Final Amendments to be applied in circumstances where source records are not maintained and either the company did not design and implement controls to address risks of modification or when controls addressing such risks are ineffective. While a scope limitation is one outcome that could result in these situations, whether the Board believes there are procedures that could achieve the requirements of the Final Amendments to avoid a scope limitation is not clear. Auditors face uncertainty about the Board's expectations of compliance with AS 1105.10A given the extensive use of electronic information by companies and their varying approaches to implementing controls. Having a mechanism to address these and other implementation questions would significantly enhance audit quality by enabling auditors to understand how the Board expects auditors to comply with the requirements in the Final Amendments.

Selecting items for testing

There is also a lack of clarity on the use of the term 'item' in two different contexts within AS 2301.48. Whether 'each item selected for testing' is intended to be a transaction or a characteristic of a transaction is not clear. This will impact auditors' ability to consistently determine whether a particular audit procedure qualifies as a test of details.

² Refer to 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, page 30.

Recommendation

While we have identified the few implementation challenges discussed previously, we expect additional questions to be raised as auditors begin to apply the Final Amendments. We strongly encourage the SEC in their oversight role over the PCAOB to support the Board in establishing mechanisms like those used by other regulators or standard setters in related activities. In a recent comment letter to the PCAOB, we provided examples such as establishing a consultation mechanism like the SEC's own Office of the Chief Accountant whereby audit firms would be able to seek real-time interpretive guidance from PCAOB Staff. We also recommended establishing taskforces to address implementation questions and to inform the Board of transition challenges. At a minimum, the SEC should encourage the Board to provide incremental application guidance to what was included in the Release.

Interdependencies of the Final Amendments and AS 2305, Designing and Performing Substantive Analytical Procedures

As stated in our comment letter to the PCAOB, we believe the considerations in AS 1105, AS 2301, and AS 2305 are interrelated, especially as it relates to the use of technology-assisted analysis.³ While we are in the process of reviewing the Board's substantive analytical procedures (SAP) proposal, we believe that approving the Final Amendments independent from and prior to the Board approving amendments to AS 2305 could result in a disconnect from AS 1105 and AS 2301, or cause additional confusion related to obtaining sufficient appropriate audit evidence when using technology-assisted analysis. The Board acknowledged that commenters have stated that technology-assisted analysis continues to make classification of procedures between tests of details and analytical procedures more challenging because some procedures may exhibit characteristics of both types of procedures. However, the Board did not provide further guidance or examples to address this challenge. The Board decided to retain the distinction of a substantive procedure as either a test of details or a SAP. Therefore, auditors will need to continue to classify procedures performed using technology-assisted analysis within one of these categories.

Additionally, the interaction between AS 1105.10A and AS 2301.40A as proposed with AS 2305⁴ causes further confusion due to the apparent inconsistent requirements for evaluating external information.

Recommendation

We respectfully recommend the SEC require the PCAOB to delay the effective date to align with the effective date of proposed AS 2305. Additionally, we recommend the SEC encourage the PCAOB to align the requirements in AS 1105.10A and AS 2301.40A for evaluating external information to provide clarity on how the standards interact. Synchronizing the effective date with AS 2305 and aligning requirements with similar concepts within these related standards will provide clarity and consistency in the application of procedures performed using technology-assisted analysis, including the determination of whether a substantive procedure meets the definition of a test of details or SAP. This recommendation will also mitigate the need for costly and time-intensive reevaluations of the classification of procedures performed using technology-assisted analysis in the future.

³ See KPMG's response to question 3 within our [comment letter](#) to the PCAOB on Rulemaking Docket Matter No. 52.

⁴ Refer to PCAOB Release [No. 2024-006](#), Proposed Auditing Standard - *Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards*.

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Securities and Exchange Commission
July 23, 2024
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We appreciate the opportunity to respond to the request for comments on the Release and welcome any opportunity to further discuss our observations.

Sincerely,

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