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

**Re: File Reference No. PCAOB-2024-03**

Dear Madam Secretary:

Ernst & Young LLP is pleased to provide comments to the Securities Exchange Commission (SEC or Commission) on 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*. We respectfully request the Commission's willingness to consider our submission past the requested due date.

We commend the efforts of the PCAOB to modernize its auditing standards related to the auditor's use of technology-assisted analysis and generally support the SEC's approval of the amendments. However, we wish to draw the Commission's attention to a significant concern with new paragraph .10A in Auditing Standard (AS) 1105, *Audit Evidence*, of the proposed rules. We previously provided comments to the Board on its initial proposal to request further clarifications or modifications regarding the required procedures that it introduced for the auditor's evaluation of the reliability of external information provided by the company in electronic form.<sup>1</sup>

In the process of evaluating paragraph AS 1105.10A of the proposed rules, and relatedly in connection with our evaluation of the PCAOB's proposal to replace AS 2305, *Substantive Analytical Procedures*, we found the final wording in AS 1105.10A did not fully resolve the concerns we raised in our previous comments. We believe AS 1105.10A(b), in particular, will be viewed as departing from the foundational principles of the risk-based audit approach to the auditor's consideration of the authenticity of external information used as audit evidence as outlined in AS 1105.08 through .10A(a).

Further, absent modifications or clarifying implementation guidance related to AS 1105.10A(b), we believe the PCAOB's proposed amendments to AS 2301, *The Auditor's Responses to the Risks of Material Misstatement* (specifically, new paragraph .40A), which are part of the PCAOB's proposal to replace extant AS 2305, would create significant new implementation challenges for both issuers and auditors by broadening the scope of evidence subject to AS 1105.10A(b)'s prescriptive requirements.

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<sup>1</sup> See our comment letter on PCAOB Release 2023-004 accessible on the [PCAOB's website](#).



As a result, we are attaching certain relevant excerpts of our comment response to the PCAOB on Release No. 2024-006, *Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards*, for your consideration. These excerpts outline our concerns with the requirements of new AS 1105.10A(b) and include our integrated discussion of the PCAOB’s proposed amendments to AS 2301, specifically paragraph .40A.

As discussed further below, we believe that, absent modifications or clarifications to AS 1105.10A(b), the requirements will introduce significant costs on registrants and accounting firms that may be disproportionate to the associated risks to financial statements and the benefits to investors. We believe providing the full context of these integrated comments helps articulate our recommendations.

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We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Sincerely,

*Ernst & Young LLP*

## **Attachment**

Relevant excerpts of our response to the PCAOB on Release Number 2024-006, Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards, are provided as follows:

### **Proposed amendment to AS 2301, *The Auditor's Responses to the Risks of Material Misstatement* and recent amendment to AS 1105, *Audit Evidence***

We appreciate the Board's efforts to consider clarifications to the auditor's responsibilities regarding information the company receives from external sources, and we support the development of standards that are well-suited to respond to the continued expansion of technology-assisted auditing techniques. However, we have significant concerns that the requirements in new proposed paragraph AS 2301.40A and the recent amendments to AS 1105.08 through .10 (including new paragraph AS 1105.10A) would (i) appear to be in conflict with one another, (ii) introduce unclear testing requirements and (iii) significantly expand the required auditor procedures related to establishing the reliability (including authenticity) of information the company receives from external sources. Such an expansion of auditor procedures, without measurably enhancing audit quality in a cost-beneficial manner, would not be in line with the Board's stated objectives. Further, absent modification, proposed AS 2301.40A and recently passed AS 1105.10A will require extensive new audit procedures related to external information used by the company irrespective of the auditor's risk assessment and professional judgment related to the possibility that such external information is not reliable or authentic or whether the auditor intends to use such external information as part of its audit procedures.

Accordingly, we recommend the Board eliminate paragraph AS 2301.40A from the proposed amendments. We believe the expanded requirements could be costly and unnecessary given the extant requirements of AS 1105, which provides a sufficient model for the evaluation of this external information. However, if such requirements are determined to be insufficient, we recommend the Board consider further amendments to AS 1105 to make those requirements clearer. Further, we recommend the Board consider amending AS 1105.10A(b) such that the requirements are first subject to the auditor's evaluations in paragraphs 1105.08 through .10A(a).

### ***Proposed amendment AS 2301.40A***

We outline in further detail our concerns with respect to proposed AS 2301.40A as follows:

- ▶ When performing substantive audit procedures on accounts or disclosures that depend on information the company received from external sources, AS 2301.40A requires the auditor to "examine" relevant information from the external sources. However, when the auditor uses information from external sources as part of their audit, existing AS 1105 paragraphs .08 through .10 (including recently passed AS 1105.10A) would be applicable and the auditor would be required to evaluate the relevance and reliability of the information. Accordingly, depending upon which procedures the auditor chooses to perform to evaluate the relevance and reliability of external information under AS 1105, proposed AS 2301.40A would be either redundant (e.g., when "examining" the information involves procedures equivalent to those performed by the auditor to evaluate the reliability of such information pursuant to AS 1105) or incremental (e.g., when "examining" the information involves

substantive audit procedures related to the reliability of such external information that go beyond AS 1105's requirements for performing an appropriate combination of risk assessment, control and/or substantive procedures when considering the reliability of audit evidence).

- ▶ For accounts or disclosures that depend on information the company received from external sources, AS 2301.40A goes further than AS 1105 by requiring the auditor to perform substantive procedures related to relevant information from external sources regardless of whether the auditor otherwise plans to use such information as audit evidence. When the auditor would not otherwise be planning to use the information from external sources that is referenced in proposed AS 2301.40A as audit evidence, we do not believe the auditor's substantive procedures should be required to involve "examining" such information.
- ▶ Based on the examples provided in the proposing release of accounts or disclosures that may depend on information the company received from external sources (e.g., "accounts involving transactions with third parties or assets held by third parties"), combined with the examples of information a company receives from external sources (e.g., "customer payments" or "supplier invoices" as noted in the proposing release, or "cash receipts, shipping documents, and purchase orders" provided in footnote 3B of recently passed AS 1105.10A), it appears that substantially all accounts or disclosures could be subject to proposed AS 2301.40A.

Notwithstanding our above recommendations, we also believe the requirements of proposed AS 2301.40A would lack the necessary clarity for auditor implementation. Specifically, "examine" or "examining" is not defined in either AS 1105 or AS 2301, and we do not believe there is sufficient clarity on the nature, timing and extent of procedures that "examining" would entail under proposed AS 2301.40A. Further, proposed AS 2301.40A would apply to all accounts or disclosures that "depend on" information the company received from external sources, with examples indicating a broad spectrum of potential information from external sources that companies depend on. However, proposed AS 2301.40A requires auditors only to examine "relevant" information from external sources while not articulating in what context relevancy would apply. With no clear framework, explanation or examples to support this requirement, this would result in a wide range of inconsistent practice that could be contrary to the Board's objectives.

### ***Amended AS 1105.10A***

As acknowledged above, auditors performing substantive analytical procedures would need to comply with proposed AS 2301 as well as AS 1105, which was recently amended as part of the Board's amendments related to aspects of designing and performing audit procedures involving technology-assisted analysis of information in electronic form. Such amendments include a new provision in paragraph AS 1105.10A(b) related to the auditor's required testing of certain information from external sources to determine the information has not been modified by the company. Specifically, when the auditor uses information in electronic form that the company received from one or more external sources (identified in footnote 3B as encompassing information such as "cash receipts, shipping documents and purchase orders"), AS 1105.10A(b) requires the auditor to perform procedures to establish reliability by either "testing the information to determine whether it has been modified by the company" or "testing controls over the receiving, maintaining, and processing the information."

In evaluating new paragraph AS 1105.10A(b), including how it would interact with the proposal to replace AS 2305, we outline in further detail our concerns as follows:

- ▶ AS 1105.10A(b), absent further amendments or interpretive guidance, could be construed to conflict with AS 1105 paragraphs .08 and .09 and significantly expand the scope of the auditor's required procedures to address the risk of evidence modification and develop and implement an appropriate audit response. For example:
  - ▶ Paragraph .08 establishes that the reliability of evidence depends on the nature and source of the evidence and the circumstances under which it is obtained. Paragraph .09, importantly, acknowledges that the auditor is not expected to be an expert in document authentication but "if conditions indicate that a document may not be authentic or that the terms in a document have been modified but that the modifications have not been disclosed to the auditor," the auditor should modify their planned audit procedures. As a result, the new requirement in AS 1105.10A(b) could be viewed to differ from the principles and risk-based approach outlined in paragraphs .08 and .09 of AS 1105 related to the reliability of audit evidence.
- ▶ If new paragraph AS 1105.10A(b) is not subject to the principles and risk-based approach outlined in paragraphs .08 and .09 of AS 1105, we are concerned that AS 1105.10A(b) effectively establishes a presumption (regardless of their nature, source and circumstances) that the information provided to the auditor in electronic form has been modified, which must always be overcome by the auditor's testing (either controls or substantive procedures). Given the routine nature of the types of information contemplated by AS 1105.10A (e.g., cash receipts, shipping documents, purchase orders), in combination with routine company practices to receive and store such information electronically by digitizing the related information, we believe in most instances the presumption that such underlying source evidence has been modified by the entity is inconsistent with the nature, source and use of such information in practice.
- ▶ We also believe AS 1105.10A(b), absent further amendments or interpretive guidance, lacks sufficient clarity for auditor implementation. As mentioned above, companies commonly digitize the source information referred to in footnote 3B of AS 1105.10A. In many circumstances, issuers do not consider the risk of subsequent modification of such information as a risk of material misstatement. Therefore, such digitization controls are not designed and executed in the normal course of their internal control over financial reporting. Additionally, in many cases the underlying source documentation is disposed of once the information is digitized. As a result, should the auditor now be required to either test controls over the digitization, maintenance and storage of such information or directly test that such information received in electronic form has not been modified by the company, it is unclear how the Board expects auditors to comply with the new requirement in all circumstances.

Based on the above, we recommend the Board consider amending AS 1105.10A as follows:

.10A The company may provide to the auditor information in electronic form that the company received from one or more external sources.<sup>3B</sup> When using such information as audit evidence, the auditor should evaluate whether the information is reliable for purposes of the audit by:

- a. Obtaining an understanding of (i) the source from which the company received the information; and (ii) the company's process by which such information was received, maintained, and, where applicable, processed, which includes understanding the nature of any modifications made to the information before it was provided to the auditor; and
- b. Subject to the auditor's evaluations in paragraphs .08, .09 and .10A(a) above, assessing the need for additional procedures such as: (i) ¶ testing the information to determine whether it has been modified by the company and evaluating the effect of those modifications; or (ii) testing controls over receiving, maintaining, and processing the information (including, where applicable, information technology general controls and automated application controls).

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<sup>3B</sup> Such information includes, for example, cash receipts, shipping documents, and purchase orders.