

August 28, 2023

Ms. Phoebe Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K St, NW
Washington, DC 20006-2803

PCAOB Release No. 2023-0004, June 26, 2023: Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form

Dear Secretary Brown and PCAOB Board Members:

Johnson Global Accountancy is pleased to submit its comments on the proposed amendments to AS 1105, *Audit Evidence* and AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, and to making confirming amendments to other related PCAOB auditing standards.

Johnson Global Accountancy's mission is to be the most innovative and technically excellent advisory firm at the intersection of companies, auditors, and regulators, which improves investor decision-making confidence. We serve a diverse group of audit firms ranging from single office firms to more complex regional firms and the top 20 firms. We help firms interpret, respond, and comply with global auditing and financial reporting standards and regulatory requirements, including those standards set by the PCAOB. Our team of financial reporting quality advisors helps prepare firms to perform high-quality audits using innovative tools with a shared commitment to implement effective policies, procedures, and controls. We also provide firms with integrated software and service solutions to help them comply with audit quality standards.

Overall, we support the PCAOB's objective to improve audit quality and enhance investor protection to reflect the growing use of technology in audits. Modernizing the standards to address audit procedures that involve analyzing information in electronic form with technology-based tools is welcome and needed. This is an important step forward to address this rapidly changing environment. We encourage the Board to continue developing principles-based standards adaptable to these evolving changes and to firms of all sizes.

In our audit quality advisory work, we observe engagement teams at various firms using technology-based tools to produce audit evidence. We agree with the research that audit firms of all sizes are expanding their use of technology to perform audit procedures. We also note, however, that certain firms have reported that they remain hesitant to use technology-based analytical tools. They appear to need further guidance to reinforce their comfort that technology-

based analysis will in fact, produce better quality audit evidence that complies with existing standards.

In many respects, the proposed amendments reflect ongoing current practices and provide clarity in certain areas. We do, however, believe that additional clarity and guidance is required. The Board should consider providing additional guidance and examples to illustrate how technology-based tools can be used in key audit areas to identify, assess and respond to the risks of material misstatements. Guidance on evaluating results of such procedures, including, for example, where an entire population is assessed, is important for the auditing profession. Guidance that is supported by principles and theory (in particular, with respect to sampling) is needed to illustrate the implications, how to address them and to ensure consistency amongst the entire auditing profession.

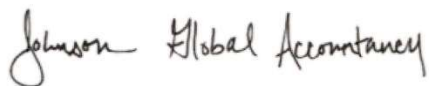
The Board's May 2021 *Spotlight: Data and Technology Research Project Update* ("May 2021 Data Spotlight") provided helpful updates for inventory and the confirmation process. We encourage the Board to continue to provide additional guidance and examples by account area as well as by auditing standard area.

We also encourage the Board to expand their work related to data and technology to consider and address the need for IT audit specialists to support financial statement and integrated audits. The current demand appears to exceed supply and should also be considered as part of modernizing the auditing standards for the smaller firm audit marketplace.

We set out our comments on selected questions posed by the Board in the Proposal in the attached Appendix.

We appreciate the opportunity to provide our comments and support the PCAOB's efforts to improve auditing standards to enhance audit quality and better protect investors. We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Jackson Johnson, President (jjohnson@jgacpa.com) or Joe Lynch, Managing Director and Shareholder (JLynch@jgacpa.com) or Santina Rocca, Managing Director (SRocca@jgacpa.com). They may be reached at (702) 848-7084.

Sincerely,

A handwritten signature in cursive script that reads "Johnson Global Accountancy".

Johnson Global Accountancy

Appendix A

Improving Standards

- 1. Does the description of auditors' use of technology-assisted analysis in designing and performing audit procedures accurately depict the current audit practice? If not, what clarifications should be made? Are there other aspects of auditors' use of technology-assisted analysis that we should consider?**

The description of current audit practice is generally accurate. We encourage considering and adding topics that influence or persuade firms to avoid using technology when it would otherwise be helpful to them to perform a more effective and efficient audit. Auditors have expressed concerns to us regarding the time to learn a new tool, evaluate its efficacy, determine how to address the volumes of data and analyses used, determine the appropriate tool to use, and uncertainty over whether the tool in fact does what it says it does.

The PCAOB could play a pivotal role in assisting smaller firms stay in the market by collecting, summarizing, and analyzing the strengths and pitfalls of tools. We encourage a particular focus on this market segment to continue fostering competition and the ability to produce quality audits for all investors.

The Board could do this with additional explanatory material or separate guidance. For smaller firms who may lack access to the resources of larger audit firms, we encourage that such guidance be set out by financial statement account area.

This would help level the playing field so that all audits are performed to an equal standard.

- 3. In addition to the proposed amendments, what other requirements may need to be included in PCAOB standards to address use of technology-assisted analysis in audits?**

We encourage the Board to add further explanatory guidance to the proposal to illustrate how auditors can use technology to perform more effective and efficient audits in specific financial statement account areas. Material included in the May 2021 Data Spotlight for inventory and confirmations should be enhanced and considered for inclusion in the related standards or consolidated in one area as "additional guidance for technology-assisted analysis". Including material in multiple places throughout PCAOB guidance is an obstacle for auditors, particularly, for international and smaller firm auditors.

Tests of Details, Analytical Procedures and Disaggregation (Proposed Paragraphs .07, .13 and .21 of AS 1105)

4. Are the proposed amendments that clarify differences between tests of details and analytical procedures clear and appropriate? If not, what changes should be made to them?

The proposal to amend paragraphs .13 and .21 of AS 1105 to clarify the meaning of “test of details” is appropriate. However, we believe that additional guidance and clarification is needed for analytical procedures.

Proposed paragraph 13 of AS 1105 notes that *“A test of detail involves performing audit procedures with respect to individual items included in an account or disclosure, whereas analytical procedures generally do not involve evaluating individual items included in account or disclosure, unless those items are part of the auditor’s investigation of significant differences from expected amounts.”*

Page 17 of the Release notes that an *“audit procedure that uses technology-assisted analysis to develop an auditor’s expectation for interest income in total for the account, would be considered an analytical procedure, not a test of details, if the procedure was not applied to individual items in the account.”* It may not be clear to audit professionals what is meant by “if the procedure was not applied to individual items in the account”. This example would be clearer if it were supplemented with the actual details rather than a description.

Analytical procedures remain a challenging area for auditors to perform well. We encourage the Board to expand the explanations and guidance for analytical and substantive analytical procedures. The approach should be relatively similar between the two – determining an expectation and evaluating differences from expectations. We encourage robust examples of both types to assist auditors with understanding the differences and how both approaches add value to the audit. Without the additional explanations, the clarity will only come following an inspection which is too late in the process to protect investors and benefit the audit process.

We also encourage incorporating the guidance included in Staff Audit Practice Alert No. 15, *Matters Related to Auditing Revenue from Contracts with Customers*, regarding performing substantive analytical procedures to test revenue.

5. Would the proposed amendment that states that the relevance of audit evidence also depends on the level of disaggregation or detail of information necessary to achieve the objective of the audit procedure improve the auditor’s evaluation of the relevance of audit evidence? If not, what changes should be made?

Amendments to Paragraph .07 to clarify that the level of disaggregation affects the relevance of audit evidence obtained is helpful and generally consistent with audit practice.

Paragraph .7c. *“The level of disaggregation or detail of information necessary to achieve the objective of the audit procedures”* provides additional clear guidance for auditors.

However, we encourage the inclusion of additional examples to illustrate what disaggregation means and looks like. This is an area we often discuss with firms as to whether they have sufficiently disaggregated the data to reach their conclusions. This most often arises with analytical reviews, whether substantive or otherwise.

Using Audit Evidence for More than One Purpose (Proposed Paragraph .14 of AS 1105)

6. Are the proposed requirements that specify the auditor’s responsibilities when using audit evidence from an audit procedure to achieve more than one purpose clear and appropriate? If not, what changes should be made to the amendments?

The Release notes that proposed paragraph .14 of AS 1105 would specify that *“if an auditor uses audit evidence from an audit procedure for more than one purpose, the auditor should design and perform the procedures to achieve each of the relevant objectives.”* This appears to imply that the auditor must **intend** to use the audit procedures for more than one purpose. Without that initial intent, it appears to prohibit an auditor from using the evidence, even if it were appropriate in the circumstances.

Accordingly, the proposal appears to require that the auditor determine the purpose and objective of multi-purpose tests before performing them even though they may later find that the audit evidence supported more than one purpose.

Overall, we support clarifying the use of audit evidence for more than one purpose; we, however, have significant concerns about the proposal prohibiting an auditor from using the audit evidence later in their audit. This seems to somewhat contradict revising the risk assessment throughout the audit in response to additional information about risks. We encourage further clarity on this point.

Investigation of Items When Designing or Performing Substantive Audit Procedures (Proposed Paragraph .37A of AS 2301)

7. Would the proposed amendments, that specify considerations for the auditor’s investigation of items that meet criteria established by the auditor when designing or performing substantive procedures, improve the identification and assessment of the risks of material misstatement and the design and implementation of appropriate responses to the assessed risks?

In most respects, the proposed steps align with how auditors evaluate audit evidence in practice. It is not clear, however, that the proposed steps address the scenarios highlighted in the Release itself.

The Release identifies on page 21 that “technology-assisted analysis may enable the auditor to examine all items in a population” and that it is “possible that the analysis may return dozens or even hundreds of items within the population that meet one or more criteria established by the auditor.”

While we acknowledge that it may not be possible to identify all scenarios and that auditing standards need to be principles-based in this evolving area, we encourage the Board to add additional examples (on a continuum) to illustrate how auditors should approach various results. This would help clarify expectations for auditors and reinforce consistency within the audit profession.

Technology-assisted analysis has expanded the availability of data and the ability to analyze; further guidance on how to deal with outliers, exceptions etc. is needed.

We suggest including the examples on page 22 of the Release related to revenue and raw material to standard itself or to separate guidance. Expanding this list of examples and scenarios in additional explanatory guidance would help audit practitioners.

Evaluating Reliability of Certain Audit Evidence (Proposed Paragraphs .08, 10, .10A, .15, .19 and .21 of AS 1105)

- 9. Are the proposed amendments that specify requirements for the auditor to perform procedures to evaluate the reliability of external information maintained by the company in electronic form that the auditor uses as audit evidence clear and appropriate? If not, what changes should be made to the amendments?**

Definition of “more reliable”

Paragraph .8 states that *“information produced by the company and external information maintained by the company in electronic form are more reliable when the company’s controls over that information, including where applicable, its information technology general controls and automated application controls are effective.”*

It is not clear from this proposed amendment what “are more reliable” means and how an auditor would apply that criterion. Does this imply that the auditor needs to perform more testing? Is the auditor required to test the controls to use information produced by the company? The “are more reliable” term including the related scale should be defined.

Reliability of electronic information

We are further concerned that this paragraph may suggest information produced in electronic form is generally more reliable even though the paragraph goes on to state that the auditor needs to determine that the “company’s controls over that information, including where applicable, its information technology general controls and automated application controls, are effective”.

Requirement to test controls

It is further unclear whether the PCAOB expects auditors to test the controls to use any information produced by the company or external parties. There are circumstances where an auditor can test that information is reliable without testing controls, including for example, confirming information with third parties.

10. Are the proposed amendments that emphasize the importance of controls over information technology for the reliability of audit evidence clear and appropriate? If not, what changes should be made?

We support emphasizing the importance of controls over information technology. We expect auditors to understand the related controls and that this helps to perform a more effective risk assessment as required by existing standards.

We are concerned, however, that the proposal appears to significantly expand and diverge from existing auditing standards by including a reference in paragraph. 10 to test controls over information produced by the company including “where applicable, information technology general controls and automated application controls”. This seems to suggest that information produced by the company that is subject to control tests is more reliable than other evidence. Accordingly, this would appear to imply that without testing controls and information technology general controls, audit evidence produced by the company is not reliable.

We recommend defining “where applicable” with clear factors or examples of when information technology general controls and automated controls would be applicable.

11. When the auditor uses information produced by the company and external information maintained by the company in electronic form, should PCAOB standards require internal controls over such information to be tested and determined to be effective for such information to be considered reliable audit evidence?

Auditing standards should continue to remain principles-based and not require the testing of internal controls to use information as reliable audit evidence. There are numerous scenarios, especially in smaller issuers, where internal controls may not be effective and testing the controls would not be appropriate or necessary. We agree that auditors need to understand the internal control environment, but we do not agree that leads to a requirement to test controls.

We also encourage the Board to consider the implications of technology on the current resources available to firms. Auditors with expertise in technology controls continue to be in demand and are in short supply. Expanding these requirements to require this type of testing will place a significant burden on firms, especially smaller firms. We suggest continued research in this area. The PCAOB can play a vital role in evaluating the most effective way to ensure that the audit profession is ready to perform effective audits with the evolving technology changes.