

August 28, 2023

By Email: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight
Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Release No. 2023-004 – Proposed Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form

Dear Office of the Secretary:

Mazars USA LLP (“Mazars USA”) welcomes the opportunity to comment on the Public Company Accounting Oversight Board’s (“PCAOB” or the “Board”) proposed amendments in Release 2023-004 (this “Release”) to PCAOB Auditing Standards related to aspects of designing and performing audit procedures that involve technology-assisted analysis of information in electronic form.

Mazars USA has over 100 partners and 900 professionals across the United States and is an independent member firm of the Mazars Group, an organization with over 1,200 partners and 30,000 professionals in over 95 countries around the world, and a member of Praxity, a global alliance of independent firms. As a member of an international network, we strive for continuous improvement by collaborating with our other member firms to set high standards for audit quality throughout the Mazars Group, Mazars USA has a unique perspective that may differ from our international counterparts due to the U.S. regulatory and litigation environment and variations in our client population.

Our view on the proposed amendments is driven by our position in the U.S. marketplace as a medium sized public accounting firm servicing mostly small to mid-size public and private businesses in a variety of industries and as a member firm in a global network. We are fully committed to the highest levels of audit quality in the execution of our audits and appreciate the efforts the PCAOB invested in the detailed proposal.

We support the Board's intent to modernize and strengthen auditing standards with respect to the auditor’s responsibilities for designing and performing audit procedures that involve technology-assisted analysis of information in electronic form. The auditor’s use of technology continues to become more pervasive in the current environment and we are supportive of the additional direction proposed by the PCAOB that will serve to enhance audit quality.

General Comments

Need to Improve Audit Standards

1. Mazars wishes to express its appreciation and support for the Board’s efforts to specify and clarify auditor responsibilities related to aspects of designing and performing audit procedures that involve technology-assisted analysis of information in electronic form.

2. We particularly welcome the Board's overall assertion that the incorporation of technology-assisted analysis into the auditor's audit approach is broadly intended to *"improve audit quality and enhance investor protection."* When read in conjunction with various other observations throughout the Release, the proposed amendments appear to signify a distinct move by the Board to promote the use of technology-assisted analysis. For example, the Release notes that:
 - a) Audit procedures involving technology-assisted analysis are an important component of many audits;¹
 - b) Using technology-assisted analysis may enhance the effectiveness and efficiency of audit procedures.²
 - c) The proposed amendments may reduce the risk of some firms being reluctant to use technology-assisted analysis due to perceived regulatory risks;³ and
 - d) Auditing standards that do not appropriately accommodate the evolution of technology may therefore inadvertently deter or insufficiently facilitate improvements to the audit approach.⁴
3. To emphasize, based on our reading of the Release (in particular Sections I, II and III, including a sample of key observations as highlighted in paragraph 2), we broadly interpret that the proposed amendments were designed to, in simple terms, (also) improve audit quality and to serve as an incentive to promote or stimulate the auditor's use of technology-assisted analysis.
4. In contrast, we believe the level of such anticipated benefits or expectations is substantially curtailed or restricted when considering the discussions in Section IV of the Release. In discussing the economic analysis of the proposed amendments, it is noted that, inter alia, *"Overall, we expect that the economic impact of the proposed amendments, including both benefits and costs, would be relatively modest."* Needless to say, we expected that the economic impact, for both benefits and costs, would be more than modest. However, this may also mean that on average, audit firms already use technology to a large extent, and the expected incremental value of the proposals is therefore considered modest. Alternatively, this may suggest that the proposals do not sufficiently "move the needle" in respect of the auditor's use of technology.
5. Given the perceived inconsistency about the basis or rationale of the proposed amendments, including the nature and degree of the collective benefits, we encourage the Board to clarify its views or position in relation to the use of technology more broadly. For example, it would be helpful if the Board could further elaborate on the meaning and consequences of an assertion that the benefits associated with the use of technology are considered "modest." In particular, we are concerned that a forecast of "modest" benefits may inadvertently deter auditors from using technology-assisted analysis (as opposed to an objective of reducing the risk of some firms being reluctant to use such technology).
6. We appreciate the challenge that the Board faces in striking a balance between allowing and promoting the use of technology-assisted analysis, but at the same time restricting its use in undue circumstances. We wish to note that we concur with the principles-based nature of the proposed

¹ PCAOB Release 2023-004, Background, Section C – Current Practice, page 10

² PCAOB Release 2023-004, Background, Section D – Reasons to Improve Auditing Standards, page 12

³ PCAOB Release 2023-004, Research on Auditor's Use of Technology-Assisted Analysis, pages 30–31

⁴ PCAOB Release 2023-004, Research on Auditor's Use of Technology-Assisted Analysis, page 32

amendments and the decision to not require the auditor to use technology-assisted analysis. We also support the notion that technology-based tools may not always provide sufficient appropriate audit evidence, such as when the audit procedures are not designed and executed in accordance with PCAOB standards.

Types of Audit Procedures

7. We realize that the classification of audit procedures by nature and type is creating challenges in practice as the use of new technologies may involve a blend of types of audit procedures. In addition, the types of procedures described in the PCAOB standards may not fully describe the procedure being performed.
8. Given the challenges to appropriately classify audit procedures that involve technology, we understand and appreciate proposed amendments that intend to clarify, for example, the difference between analytical procedures and tests of details.
9. However, as technology continues to evolve, we would caution against an approach that is overly focused on dissecting or analyzing existing categories of audit procedures, purely for purposes of finding a category that is deemed to be the “best fit” for a particular technology-assisted analysis procedure (i.e., “shoehorning” technology procedures in accordance with potentially outdated audit procedure categories). We wish to note that the PCAOB’s long-standing categories of audit procedures,⁵ although principles-based, may not be suitable for classification or categorization of modern technology-assisted techniques.
10. We are of the view that it is more important for auditors to focus on the appropriateness of the audit procedures in the circumstances (i.e., whether the audit procedures are appropriately designed to achieve their intended purpose), rather than analyzing the type of audit procedure (i.e., in which “category” the audit procedure falls). We encourage the PCAOB to adopt a similar mindset – this may include implementing an approach where the continued applicability and relevance of potentially outdated audit principles or concepts are critically evaluated, given the rapid evolution and advances in technology. For example, when using technology-assisted analysis to perform a substantive analytical review procedure, there may be circumstances where the capability or precision of such an audit procedure provides sufficient appropriate audit evidence in response to a significant risk, without the need to supplement this procedure with test of controls or tests of details. An example may include the use of technology to perform a substantive analytical review procedure, where 100% of the interest income on loans receivable is tested or recalculated. We appreciate that such a fundamental review of audit principles is outside the scope of the current project and would take some time.

Targeted Feedback

Reasons to Improve the Auditing Standards

11. In addition to our general comments, we provide specific feedback to certain questions in this section.

Q4: 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?

⁵ AS 1105, paragraph 13

12. In principle, we believe the proposed amendments to clarify the differences between tests of details and analytical procedures are clear and reasonable. However, please refer to our comments and recommendations as discussed in paragraphs 4–5 and 9–10 of this letter, in relation to:
- a) Uncertainty about whether the overall proposals are intended to encourage the use of technology-assisted analysis;
 - b) Risks about an approach that overly focuses on analyzing existing categories of audit procedures (such as tests of details and analytical procedures), including the differences between such categories, for purposes of shoehorning different types of technology-assisted analysis techniques into such categories. For example, when using data analytics to assess the population of journal entries to identify unusual/higher risk items, is this a risk assessment procedure or a substantive test?
 - c) Shifting the focus from analyzing the type of a procedure to whether it's appropriate in the circumstances.
 - d) Questioning whether there may be circumstances where existing auditing concepts or principles should be reconsidered, given the evolution and advancements in technology. For example, exploring whether a substantive analytical review procedure (involving technology-assisted analysis) may be able to provide sufficient appropriate audit evidence in response to a significant risk, without the need to supplement this procedure with test of controls or tests of details.
13. Given an expectation of more widespread use of technology-assisted analysis, including substantive analytical review procedures, we encourage the Board to recognize risks associated with circular testing. For example, two or more accounts may be co-dependent, such as sales and cost of sales. There may be risks or unintended consequences when using the data of cost of sales to predict sales and vice versa, without performing substantive tests regarding the accuracy and completeness of the data of one of the account balances.
14. In further demonstrating and clarifying the segregation between analytical procedures and tests of details, we encourage the Board to develop examples that are more elaborate or detailed, which would provide more clarity and a better understanding of the Release and would likely stimulate the use and benefits of technology-assisted analysis.

Q5: 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?

15. We believe the proposed amendment would improve the auditor's evaluation of the relevance of audit evidence, based on the assumption that paragraph 07 of AS 1105 is a required consideration by the auditor. Paragraph 07 of AS 1105 explains the factors that affect the relevance of audit evidence. The use of examples would also contribute to the understanding and application of the proposed amendment (including the example about rental properties in the Release).

Multi-purpose Audit Procedures in PCAOB Standards

Q6: 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?

16. We support the proposed revisions that specify that if an auditor uses audit evidence from an audit procedure for more than one purpose, the auditor should design and perform the procedure to achieve each of the relevant objectives.
17. We also concur with the notion that the purpose, objective, and results of multi-purpose procedures should be clearly documented.

The Auditor's Investigation of Items when Designing and Performing Substantive Audit Procedures

Q7: 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?

18. We support the objective of the Board to specifically address the auditor's responsibilities regarding the investigation of items that meet a certain criteria established by the auditor. Whilst we also agree that it may improve the identification and assessment of the risks of material misstatement and the design and implementation of appropriate responses to the assessed risks, we would appreciate further clarity and guidance regarding the proposed amendments included in the new paragraph AS 2301.37A. We appreciate that the amendments are intended to specify considerations for the auditor's investigation of items that meet criteria established by the auditor when designing or performing substantive procedures on all or part of a population of items. However, although written in a linear manner, we have noted that the consequences of such considerations are interconnected and may vary (e.g., the nature, timing, or extent of procedures for investigating the identified items), and allow for the use of auditor's judgment.
19. For example, assume an engagement team uses an analytical tool to identify anomalies, and based on the criteria, anomalies carry risks of material misstatement. As currently drafted, the proposed amendments are not prescriptive about the auditor's response in respect of the anomalies identified and may vary based on the relevant facts and circumstances. Although we welcome the scalability element of the proposed amendments, we would appreciate methodical-type guidance that assists the auditor to consider all the alternatives more carefully and thoughtfully, which may also inform the auditor's exercise of professional judgment in determining the nature, timing and extent of procedures for further investigation.
20. The question then also arises about how to deal with or respond to items which did not meet the outlier or anomaly criteria. The Release appears to suggest that:
 - a) The auditor may "*select specific items for testing*" for lower risk items (page 22 of Release). We would appreciate guidance or clarification about whether there may be circumstances where the auditor may not be required to perform further audit procedures in relation to lower risk items.
 - b) "*The proposed amendments do not address the auditor's responsibilities over other items in the population,*" while it is also noted that the auditor would determine the nature, timing and

extent of audit procedures that are necessary to perform in accordance with existing PCAOB standards. Given an inter-connected, although non-prescriptive, approach in relation to the auditor's investigation of items that meet criteria established by the auditor, we recommend that the proposed amendments, or guidance, is extended to also address the auditor's responsibilities over other items in the population.

21. We agree with the requirement to obtain evidence to evaluate management's responses as obtaining corroboration of management explanations is key to the success of analytical and other procedures.

Q8: What other factors, if any, should the auditor consider when investigating items that meet criteria established by the auditor when designing or performing substantive procedures?

22. With reference to an example on page 22 of the Release:

In another example, as part of performing substantive procedures for raw material purchase transactions, an auditor may identify items with certain characteristics (e.g., amount, timing, or location). Investigating the identified transactions could involve examining documentary support for all the identified items where the risk of material misstatement has been assessed as higher; and for the identified items where the risk of material misstatement has been assessed as lower, the auditor may select specific items for testing.

23. The example in the Release notes that the investigation of identified transactions "could" involve examining documentary support for all the identified items where the risk of material misstatement has been assessed as higher. We would appreciate further clarity on the proposed guidance. For example:
 - a) Does the Board expect circumstances where the investigation of identified transactions could involve examining documentary support for a sample of identified items, even where the risk of material misstatement for all the identified items has been assessed as higher?
 - b) Generally, our approach would require the auditor to examine documentary support for all identified items where there is a risk of material misstatement due to fraud (i.e., significant risk) for such identified items. The question arises as to whether a risk of material misstatement due to fraud automatically requires the investigation of all identified transactions? We expect this to be the case; however, we request the Board provide a clarification of such circumstances to avoid confusion and potential differences in practice.

Auditor Responsibilities for Evaluating the Reliability of Audit Evidence

Q9: 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?

24. We are broadly supportive of the proposed amendments, including the assertion that the reliability of information produced by the company is increased when the company's controls over that information are effective.
25. However, we have noted that the Release notes (page 25) that the proposed amendments are designed to address the risk that "the external information maintained by the company and

provided to the auditor to be used as audit evidence may be incomplete or inaccurate (i.e., when compared with the original version that the company obtained) ...” We do not believe it’s appropriate to explicitly assert that the auditor (or the company) is in a position to address the risk of incomplete or inaccurate external information that is provided to, and maintained by, the company. Circumstances where the auditor is in a position to evaluate the accuracy and completeness of external information (including when provided to and maintained by the company) are rare, and it would be misleading to suggest otherwise. We suggest the focus is changed to the reliability of the information.

26. The introduction of paragraph 10A of AS 1105 presents similar challenges. Although we appreciate the intention to evaluate whether the *“information is reliable for purposes of the audit,”* we wish to note that the extent of the auditor’s procedures in these circumstances are often quite limited, such as considering the credibility or reputation of the third party. As such, we request the Board clarify its expectations regarding the auditor’s work effort in complying with the proposed requirements of paragraph 10A.

Q10: 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?

27. We are supportive of proposed amendments that emphasize the importance of controls over information technology for the reliability of audit evidence. However, we wish to note that there may be circumstances where the testing of such relevant automated controls are not required or necessary. For example, in a financial statement audit, the auditor may not be required to issue an opinion over internal controls over financial reporting, and/or the auditor may not place any reliance on the controls in question.

Economic Analysis

Q13: We request comment generally on the baseline for evaluating the economic impacts of the proposed amendments. Is there additional information regarding auditors’ use of technology-assisted analysis or are there additional academic studies that we should consider?

28. Please refer to our general comments in the introduction above. In our view the economic analysis could be enhanced:
- a) As written, the analysis appears to suggest that existing financial information and audits are “less reliable.” While we appreciate that audit quality may be enhanced through the use of technology, any suggestion that current audits or financial information are unreliable is not appropriate.
 - b) There are statements about the cost of new technology and associated methodologies (e.g., *“firms may incur relatively modest fixed costs to update their methodologies”*) which may be true for firms that have already invested in technology and the related training. There is also a suggestion that this investment is a simple one-off exercise/cost, without taking into account the rapid evolution in technology which may render current tools and training obsolete in the short to medium term.
 - c) The analysis focusses on reducing costs and, consequently, may be seen to put further downward pressure on audit fees. In our view, the focus should be on the ability of auditors

to redeploy resources to other more complex, higher risk areas of the audit which should lead to a further increase in audit quality.

We would be pleased to discuss our comments with you at your convenience.

Please direct any questions to:

- Joseph Lanza, Director, Quality & Risk Management
(Joseph.Lanza@Mazarsusa.com)
- Phil Minnaar, Director, Quality & Risk Management
(Phil.Minnaar@Mazarsusa.com)
- Wendy Stevens, Practice Leader, Quality & Risk Management
(Wendy.Stevens@Mazarsusa.com)

Very truly yours,

Mazars USALLP

Mazars USA LLP