

PCAOB advances rulemaking related to technology

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At a glance

The PCAOB finalized amendments to certain auditing standards that will impact audit procedures on technology-assisted analysis of information in electronic form.

At the same time, the PCAOB proposed a new standard that would address how auditors perform substantive analytical procedures.

What happened?

On June 12, the PCAOB continued its efforts to address the growing use of technology in audits by:

- Adopting amendments to auditing standards impacting how auditors design and perform technology assisted audit procedures to analyze information in electronic form (the “technology amendments”), intended to clarify the auditor’s responsibilities in a manner that is adaptable to the evolving nature of technology, and
- Proposing a new standard impacting how auditors design and perform substantive analytical procedures, intended to strengthen and clarify the auditor’s responsibilities and increase the likelihood that the auditor will obtain relevant and reliable audit evidence.

Advancements in technology have led to greater availability of information in electronic form and greater use of technology-based tools by auditors to analyze such information. The technology amendments and the substantive analytical procedures proposal are both aimed at modernizing the PCAOB’s standards in light of increased use of technology-assisted analysis by auditors and observations from PCAOB oversight activities.

The technology amendments

The principles-based technology amendments to AS 1105 *Audit Evidence*, and AS 2301, *The Auditor’s Responses to the Assessed Risk of Material Misstatement*, may result in different or incremental audit procedures when the auditor uses technology-assisted analysis. For example, an auditor may determine that incremental procedures are necessary to evaluate the reliability of external information provided by the company in electronic form (e.g., cash receipts, shipping documents, and purchase orders). The amendments:

- Clarify the description of a “test of details” and specify considerations for the auditor’s investigation of items identified when performing these tests
- Specify auditor responsibilities for evaluating the reliability of external information provided by the company in electronic form and used as audit evidence
- Emphasize the importance of controls over information technology
- Emphasize the importance of appropriate disaggregation or detail of information to the relevance of audit evidence
- Specify that the auditor should achieve each objective of the procedure when using an audit procedure for more than one purpose

The substantive analytical procedures proposal

Proposed AS 2305, *Designing and Performing Substantive Analytical Procedures*, is intended to clarify requirements when performing substantive analytical procedures, including those that are designed and performed using technology-assisted analysis or other technology-based tools. Key changes are intended to:

- Clarify the factors that affect the persuasiveness of audit evidence obtained from substantive analytical procedures as well as what makes substantive analytical procedures distinct from other types of analytical procedures (e.g., risk assessment analytics)
- Strengthen and clarify the requirements for determining whether there is a sufficiently plausible and predictable relationship(s) in the data being used to establish an expectation in substantive analytical procedures
- Specify that the auditor may not develop an expectation using the company's amount or information that is based on the company's amount ("circular auditing")
- Strengthen and clarify existing requirements for (1) determining when the difference between the auditor's expectation and the company's amount requires further evaluation, and (2) evaluating the difference and determining if a misstatement exists, including specifying requirements in certain circumstances the auditor may encounter when evaluating a difference

What's next?

Subject to approval by the SEC, the technology amendments will take effect for audits of financial statements for fiscal years beginning on or after December 15, 2025.

Comments on the substantive analytical procedures proposal are due by August 12.

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