

August 8, 2024

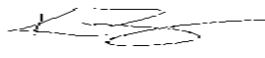
Office of the Secretary  
PCAOB  
1666 K Street, NW  
Washington, DC 20006-2803

By e-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

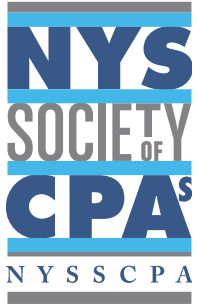
**Re: Invitation to Comment— Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards (Release No. 2024-006, Docket Matter No. 056)**

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 19,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned invitation to comment (ITC).

The NYSSCPA's Auditing Standards Committee deliberated the proposal and prepared the attached comments. If you would like additional discussion with us, please contact Yigal Rechtman, Auditing Standards Committee Chair, at 212-202-2548, Jonathan Zuckerman, past Auditing Standards Committee Chair, at 212-867-8000, and Bonnie Mann Falk, past Auditing Standards Committee Chair, at 212-331-7663, or Keith Lazarus, NYSSCPA Staff, at 212-719-8378.

Sincerely,  
N Y S S C P A  
  
N Y S S C P A  
Kevin O'Leary  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**INVITATION TO COMMENT— PROPOSED AUDITING STANDARD – DESIGNING  
AND PERFORMING SUBSTANTIVE ANALYTICAL PROCEDURES AND  
AMENDMENTS TO OTHER PCAOB STANDARDS**

(Release No. 2024-006, Docket Matter No. 056)

**August 8, 2024**

**Principal Drafters**

**Bonnie S. Mann Falk  
Yigal Rechtman  
Jonathan Zuckerman**

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### **NYSSCPA Staff**

Keith N. Lazarus

## New York State Society of Certified Public Accountants

### Comments On

#### **Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards (Release No. 2024-006, Docket Matter No. 056)**

We appreciate the opportunity to comment on PCAOB Release No, 2024-006 *Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards* (the “Release”).

We are generally supportive of the PCAOB’s efforts to create a framework that is scalable for application by firms of all sizes and the significant time and effort the PCAOB and its staff has devoted in developing the proposed standard with the ultimate goal of improving and modernizing its standard on substantive analytics.

We applaud the enhancement of the *linkage* between any procedures and the audit objectives that an auditor should respond to as part of its risk assessment process. We request that the PCAOB continue and enhance the use of substantive analytical procedures as long as the procedures can be reasonably linked to the specific objectives in the audit steps.

While we are generally supportive of the new standard, we would like to provide feedback for the PCAOB to consider in adoption of the final standard with respect to specific detailed questions addressed in the proposal:

**Question 1:** Does the description of current audit practice accurately depict the state of practice? If not, what clarifications should be made? Are there other aspects of current audit practice that we should consider?

**Response:** In our view, the proposed standard accurately depicts the state of auditor practice. The correct use of substantive analytical procedures elevates the quality of the audit. Further, in our view, effective use of substantive analytical procedures increases efficiencies, in particular for non-significant risk areas of the audit. In the past decade, in particular with non-global network firms, we believe the use of substantive analytical procedures is a lost art. The proposed standard in conjunction with the adoption by non-affiliated firms of more technologically advanced audit methodologies will result in increased use of substantive analytical procedures.

**Question 2:** Are there other areas of concern relating to auditors’ use of substantive analytical procedures that are not described above? If so, what are the areas of concern and what changes should be made to address them?

**Response:** Our concern would be the misinterpretation of the standard when inexperienced engagement teams, often without critically evaluating the PCAOB position, may confuse

procedures performed in a preliminary analytical review and concluding that is a substantive analytic. Further, to the points discussed concerning procedures performed by the engagement team over the *completeness* and *accuracy* assertions of information produced by the entity: procedures should be undertaken to determine the completeness and accuracy of the client-provided information or data *before* the commencement of substantive analytical procedures.

**Question 4:** Does the proposal adequately describe how advancements in technology changed the extent and frequency of auditors' use of substantive analytical procedures? Please provide details, including any information on the use of technology-based tools and the increase in the availability of data to perform substantive analytical procedures.

**Response:** The extant standard for substantive analytical procedures dates back to 1989, which pre-dates the PCAOB. At the time, audit engagements consisted of paper binders, limited use of laptops, and computer-assisted audit techniques. As technology has advanced, accounting firms developed paperless-based approaches and companies have increasingly automated their accounting and enterprise resource planning systems with more readily available data to assist engagement teams with analytical procedures. Technology continues to advance on a rapidly increasing basis. As a result, many of the prescriptive examples documented in the proposed standard may be outdated by the time the standard is adopted. We recommend a principles-based approach be considered for the substantive analytical procedures standard.

The persuasiveness of information should follow the same hierarchy as any other evidence in auditing: external reference points should be given more weight than internal data points. As such, the persuasiveness of analytical procedures should always be considered low, unless it can be corroborated or even drawn from external, reliable sources.

To that point, reliance on external sources that cannot be specifically cited such as Large Language Modules (LLM), a sub-area of Artificial Intelligence (AI), should be patently disallowed for lack of an audit trail and possible manipulation. We encourage the PCAOB to specifically name AI as a discouraged practice unless and until the underlying sources can be identified reliably and consistently with the use of AI.

**Question 12:** Are the examples of events, conditions and company activities that are included in proposed paragraph .06 described clearly and appropriately? Are there additional events, conditions, or company activities that may affect the plausibility and predictability of a relationship that should be included in the proposed standard as examples? If so, what are they? If the examples of events and conditions are not clear, how should they be clarified?

**Response:** We believe that the examples are described clearly; however, in our view, more contemporary examples should be used and potentially included in something other than the final standard. For example, we recommend that the PCAOB consider developing a staff practice alert when the final standard is issued to assist firms with adoption of the standard with specific examples noted in the staff practice alert and update every few years as may be applicable.

**Question 14:** Is the proposed change specifying that the auditor may not develop the expectation using the company's amount or information that is based on the company's amount clear and appropriate? If not, what changes should be made?

**Response:** In our view, this is an accurate specification. The circular auditing approach can be misleading and increase the risk that auditors may render an inappropriate opinion, especially when using substantive analytics in conjunction with an audit of a significant risk area.

**Question 16:** Is the proposed requirement that the auditor determine a threshold to evaluate the difference between the auditor's expectation and company's amount clear and appropriate? If not, what change should be made?

**Response:** In our view, this should be a standard that already exists. We do not support, and have little tolerance towards auditors who simply perform the analytical procedures, without much "analysis" and do not follow up on unexpected results.

**Question 25:** We request comment generally on the prevalence of substantive analytical procedures in audits conducted under PCAOB standards. Please provide as much detail as possible, including data on the use of substantive analytical procedures and the types of accounts on which such procedures are generally performed.

**Response:** As most of our members are employed by non-affiliated firms, the registrants audited are not integrated audits with most of the audits using a fully substantive approach. We generally see at these firms, substantive analytical procedures in areas that are not significant audit risk areas. Data used is often based on internally generated information and often uses ratio analysis. We also see comparison to industry benchmarks. Such industry information is provided in industry publications. We also see substantive analytics used in significant risk areas to supplement substantive testing. The results of substantive analytical procedures, if within the auditor's expectations, can reduce the amount of substantive test of details.

With that being said, since the issuance of the extant substantive analytics standard, we have seen practitioners in recent years reduce the amount of reliance on substantive analytics as, in our view, many engagement teams have lost awareness of the benefit of the use of substantive analytical procedures in their audit.

We are seeing some non-affiliated firms adopt more technologically advanced audit methodologies in the past two years. It is the expectation that these methodologies will be more AI based and will facilitate more effective use of substantive analytical procedures in performing audits.

**Question 26:** The Board requests comment generally on the need for rulemaking. Should we consider any additional arguments, academic studies, or data related to the need for rulemaking?

**Response:** Although we are supportive of rules that enhance audit quality, over the past decade, there has been increasing divergence between auditing standards issued by the American Institute of Certified Public Accountants (AICPA) and the standards of the PCAOB. The additional standards, including those involving quality control, have become more onerous for non-affiliated firms resulting in increased overhead costs to ensure conformity with the two different sets of US standards as well as those firms that practice under International Standards on Auditing that are required to be in conformity with International Standards of Quality Management Standard No. 1. We would recommend that the PCAOB enhance its existing dialogue with the AICPA to ensure convergence between AICPA and PCAOB standards.