



Agenda Item 4

Other Information

Objective of Agenda Item

To discuss the comments received on the public exposure of the proposed Statement on Auditing Standards, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports* and to obtain feedback and direction from the ASB. Specifically, as significant concerns were raised with respect to both the proposed requirement for the auditor to include a separate section in the auditor's report addressing other information as well as the proposed performance requirements with respect to other information, the Task Force sees three possible paths forward with respect to the project to revise AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*:

- 1) Continue moving forward with the project to issue a revised AU-C section 720 that is in substantial convergence with ISA 720 (Revised) *The Auditor's Responsibilities Related to Other Information*;
- 2) Re-deliberate the fundamental issues with respect to performance and reporting on other information and develop a revised standard – which potentially could be considered “ISA minus”; or
- 3) Place the project on hold and wait to see if the PCAOB re-starts its project to develop a revised standard on other information and whether the IAASB has any findings with respect to its post-implementation review of ISA 720 (Revised)¹.

Background

The Other Information Task Force was charged with considering ISA 720 (Revised) and whether revisions should be made to AU-C section 720 in order to converge U.S. GAAS with ISA 720 (Revised). That Task Force consisted of:

Elizabeth S. Gantnier –Task Force Chair – Former ASB member
Gerry Boaz – ASB member

¹ Our understanding is that the IAASB is planning to perform a post-implementation review of ISA 720 (Revised) as part of the planned post-implementation review of the new auditor reporting standards. The planning for the post-implementation review is scheduled to begin later in 2018, with the first phase of the review to commence sometime in 2019, subject to the IAASB's future work plan and available resources.

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David Johnson – ARSC member

Jeffrey Markert – Member of the State and Local Government Expert Panel and former Chair of the Task Force that worked on SAS nos. 118-120

Chris Smith – Former ASB member

Dan Wernke – TIC member

Since the public exposure of the proposed revised standard, Mr. Boaz, Mr. Johnson, and Mr. Smith rolled off the Task Force and ASB members Jan Herringer and Kristen Kociolek joined the Task Force.

Mike Glynn serves as the staff liaison to the Task Force.

The Task Force presented certain issues with respect to the development of the proposed standard to the ASB at the ASB's meetings in August 2016, October 2016, January 2017 (draft standard presented); and May 2017 (draft standard presented) and requested feedback. At various times, the Task Force proposed revising AT-C section 720 using either extant AT-C section 720 or a draft of the proposed PCAOB revised standard as a base. Ultimately, the ASB directed that ISA 720 (Revised) be used as the base, consistent with the ASB's strategic objective to converge its standards with those of the IAASB.

At its meeting in July 2017, the ASB voted unanimously to expose the proposed SAS for public comment. It was directed that the proposed SAS be exposed at the same time as the proposed auditor reporting suite of standards.

The exposure draft was issued on November 28, 2017 and comments were requested by May 15, 2018. The explanatory material that accompanied the exposure draft included 5 main issues on which the ASB requested specific feedback. Those issues were:

1. Clarification of documents that are within the scope of the standard
2. Determining which documents constitute the entity's annual report
3. Reading the other information
4. Knowledge of component auditors when the group auditor decides to make reference to a component auditor in the auditor's report on the group financial statements
5. Reporting

Each of the 5 broad issues included specific requests for comment.

28 comment letters were received from a variety of interested parties including large international firms, smaller firms, state societies, and regulators. All comment letters are available at

<https://www.aicpa.org/content/aicpa/research/exposedrafts/accountingandauditing/loc-on-ed-of-proposed-sas-auditors-responsibilities-relating-to-other-information.html>.

Objections to the Proposed Standard

While the majority of the comment letters received expressed support for the proposed standard, certain commenters expressed significant concerns. Specifically, 4 commenters raised concerns that may elevate to the ASB potentially considering withdrawing the proposed standard. Those commenters are:

- BDO USA LLP
- PricewaterhouseCoopers LLP
- Ernst & Young LLP
- KPMG LLP

The concerns with respect to issue 1, clarification of the documents that are within the scope of the standard; issue 2, determining which documents constitute the entity's annual report, and issue 4, knowledge of component auditors when the group auditor decides to make reference to a component auditor in the auditor's report on the group financial statements would not result in significant revisions to the proposed standard.

However, the issues with respect to performance and reporting are significant. Although the Task Force believes that the issues are fundamentally interconnected, because the commenters addressed the issues separately in their comment letters, the issues are discussed separately below.

Why did the ASB undertake the project?

A primary goal of the ASB in developing the proposed revised AU-C section 720, and exposing such proposed standard for public comment, was to narrow potential or existing expectation gaps through requiring auditors to articulate in their reports their responsibilities under the proposed SAS, and the outcome of their work relative to other information.

Further, as previously stated, the ASB's strategic objective is to converge its standards with those of the IAASB. Additionally, the ASB issued a comment letter dated July 18, 2014 on the exposure draft of the proposed ISA which eventually became ISA 720 (Revised), *The Auditor's Responsibilities Related to Other Information*. That comment letter is available at:

https://www.aicpa.org/Advocacy/FinancialReporting/DownloadableDocuments/ASB_Comment_Letters/AICPA_ISA_720_Comment_Letter.pdf.

In its Basis for Conclusions document dated April 2015 with respect to ISA 720 (Revised) – available at [https://www.ifac.org/system/files/publications/files/ISA-720-\(Revised\)-Basis-for-Conclusions.pdf](https://www.ifac.org/system/files/publications/files/ISA-720-(Revised)-Basis-for-Conclusions.pdf) staff of the IAASB stated:

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51. Reporting on the auditor's work relating to other information in accordance with ISA 720 (Revised) is one facet of the IAASB's work to more broadly enhance the communicative value of the auditor's report through the development of new and revised Auditor Reporting standards. ED-720 (2014) required the auditor to include a section addressing other information in the auditor's report when other information was obtained prior to the date of the auditor's report. The section was required to identify the other information obtained, state that the auditor had not audited the other information and accordingly did not express an audit opinion or any form of assurance conclusion thereon, describe the auditor's responsibilities relating to other information, and include a statement either describing a material misstatement (if one exists) or stating that the auditor had nothing to report. No section was required to be included in the auditor's report if no other information was obtained prior to the date of the auditor's report.

With respect to the performance requirements, the Basis for Conclusions reiterates that the IAASB's aim was to require an "intelligent read" of other information.

As previously stated, the ASB issued a comment letter dated July 18, 2014 on the exposure draft of the proposed ISA 720 (Revised). The exposure draft included a specific request for comment regarding "whether, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information." In its response, the ASB stated "We believe that the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information." With respect to the performance requirements, the ASB's comment letter included some suggested revisions but did not object to the concept of an intelligent read or the definitions.

Reporting

A primary issue that the aforementioned commenters have with respect to the proposed standard is the requirement that the auditor's report include a separate section with the heading "Other Information," or other appropriate heading, when, at the date of the auditor's report, the auditor has obtained some or all of the other information (there is no reporting requirement when, no other information is obtained as of the date of the auditor's report on the financial statements). The ASB's stated intent with respect to the proposed reporting requirement is to bring transparency of the auditor's work with respect to other information.

To illustrate, the following is an example of an "other information" paragraph that an auditor may include in the auditor's report on the financial statements when the auditor has not identified a material misstatement of the other information (note, the example is collapsed into one paragraph whereas the illustration in the exposure draft was three paragraphs).

Other Information [Included in the Annual Report]

Management is responsible for the other information [included in the annual report].
The other information comprises the [information included in the X report], but does

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not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an opinion or any form of assurance on it. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The proposed reporting requirement would result in a significant expansion of the auditor's reporting responsibility from extant AU-C section 720 as the extant section does not require the auditor to reference the other information in the auditor's report on the financial statements. However, the auditor is not prohibited from including an other-matter paragraph disclaiming an opinion on the other information.

Reconciling reporting theory with that of required supplementary information (RSI)

The reporting requirements in extant AU-C section 720 contrast with the reporting requirements in AU-C section 730, *Required Supplementary Information*. RSI is information that a designated accounting standard setter requires to accompany an entity's financial statements. Paragraph .07 of AU-C section 730 requires the auditor to include an other-matter paragraph in the auditor's report on the financial statements to refer to the RSI in the following circumstances:

- a. The RSI is included, and the auditor has applied the procedures in paragraph .05 of this section.
- b. The RSI is omitted.
- c. Some RSI is missing and some is presented in accordance with the prescribed guidelines.
- d. The auditor has identified material departures from the prescribed guidelines.
- e. The auditor is unable to complete the procedures in paragraph .05 of this section.
- f. The auditor has unresolved doubts about whether the RSI is presented in accordance with prescribed guidelines.

The project to revise the reporting requirements for RSI was undertaken in 2007 to address various issues identified by the AICPA State and Local Government Expert Panel. A primary issue was concern raised by the Governmental Accounting Standards Board regarding auditor reporting on RSI.

SAS No. 120, *Required Supplementary Information* was issued in February 2010.

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A baseline question is, while *other information* is fundamentally different from RSI because a designated accounting standard setter does not provide a framework for what *other information* should be included in an entity's annual report, how is transparency not as important with respect to *other information* as it is with RSI?

Comment letters received that are not supportive of the proposed reporting requirements

The exposure draft of the proposed standard included a specific request for comment which asked:

Does the proposed requirement for the auditor to include a separate section in the auditor's report addressing other information appropriately convey the nature and extent of the auditor's consideration of other information without inappropriately implying that the auditor has obtained assurance on or is expressing an opinion or conclusion on the other information?

Several comment letters raised certain specific concerns with respect to the proposed requirements. Those concerns can be categorized as follows:

- Issues with the content of the required other-matter paragraph (statement that “We have nothing to report”/implied assurance/reporting on OI not received as of the date of the auditors report)
 - Office of Washington State Auditor
 - Baker Tilly Virchow Krause, LLP
 - Laura Lindal, CPA
 - Smith & Howard PC
 - Grant Thornton LLP (concerned with potential confusion with RSI)
 - Virginia Society of CPAs
 - Ernst & Young LLP
 - KPMG LLP
 - Deloitte & Touche LLP
 - National State Auditors Association

- Issues with the requirement to report on other information (preference to leave extant reporting “option” as is)
 - Anders Minkler Huber and Helm LLP
 - California Society of CPAs
 - Florida Institute of CPAs
 - BDO USA, LLP
 - PricewaterhouseCoopers LLP

Specific language from individual comment letters are as follows:

Issues with statement that “We have nothing to report”/implied assurance

Office of Washington State Auditor

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...proposed requirements to include a description of the auditor's responsibilities related to reading, considering and reporting on other information, along with a statement that the auditor has nothing to report, seems contradictory to proposed requirements that the auditor does not express an opinion or any form of assurance. In our view, an explicit statement that the auditor has responsibilities to perform certain procedures and the auditor's conclusions are based on those procedures would seem to be "a form of assurance." In essence, a reader could interpret the report as now indicating assurance that the other information is not materially misstated. In contrast, current reporting requirements are appropriate, clear, and minimizes opportunity for readers to incorrectly assume auditor assurances were provided.

Baker Tilly Virchow Krause, LLP

Despite stating that the auditor does not express an opinion or any form of assurance on the other information included in the annual report, we believe financial statement users may infer that assurance is being expressed as a result of the reporting requirement included in the proposed standard; therefore, we recommend reporting only be required when the auditor has identified an uncorrected material misstatement. If the requirement to report when no uncorrected material misstatements have been identified is not removed from the proposed standard, we believe the reporting requirements in paragraphs 23.d. (describing the auditor's responsibilities) and 23.e.i. (stating that the auditor has nothing to report when no uncorrected material misstatements are identified) should be removed from the proposed standard. We believe removing these paragraphs would reduce the risk that financial statement users might infer that assurance is being expressed.

Laura Lindal, CPA

The first two paragraphs under the Other Information section are direct and clear (described in 23a-c). Then the third paragraph (described in 23d&e) says that the auditor did something, including considered materiality and knowledge obtained; this seems to "undo" what was directly said about the auditor's opinion. While auditors understand the difference between performing procedures and issuing an opinion, most users are not going to understand the subtle distinction. I recommend that the language stop after the second paragraph of "... not express an opinion or any form of assurance on it."

For Illustrations 2-4 I recommend eliminating the third paragraph and in the fourth paragraph, just eliminate the phrase "based on the work we have performed".

I know that the ASB is not the SSARS and is not responsible for professional standards for compilations. I would like to think that there could be some consistency across our professional standards. Consider the compilation report that has similar procedures required regarding information: read it, identify any material inconsistencies with information the accountant vs. auditor has knowledge of the client, industry, and financial reporting framework vs. obtained during the audit and if no changes are required report that no assurance provided. The compilation report does not describe the requirements of professional standards when performing a

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compilation. I think the auditor's report on other information, for which the auditor is not opining on, nor takes responsibility for, should just state as such and end without additional narrative to clutter the issue.

Smith & Howard PC

We believe the proposed requirement for the auditor to include a separate section in the auditors' report addressing other information is appropriate when such information is included with the audited financial statements and auditors' report. However, that section of the auditors' report should be limited to identifying that information and indicating we offer no opinion on that information. Specifically, we believe the example language included in the proposed revisions should be modified as follows:

Other Information [Included in the Annual Report]

Management is responsible for the other information [included in the annual report]. The other information comprises the [information included in the X report], but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an opinion or any form of assurance on it.

~~In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.~~

Grant Thornton LLP

We have concurrently communicated our concerns with the general length and readability of the proposed auditor's report in our May 15, 2018 comment letter on the Proposed Statements on Auditing Standards—Auditor Reporting, *Forming an Opinion and Reporting on Financial Statements, Communicating Key Audit Matters in the Independent Auditor's Report, Modifications to the Opinion in the Independent Auditor's Report, and Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*. Our concern regarding the length of the auditor's report is exacerbated by the three to four paragraphs in this proposal that would be added to the auditor's report when reporting on other information. We encourage the Board to reconsider the proposed requirements to reduce the minimum disclosure in the spirit of providing a more concise, yet informative, auditor's report.

We are also concerned about the proposed reporting requirements when considered within the context of the auditor's responsibility for required supplementary information (RSI) under AU-C section 730, *Required Supplementary Information*.

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When an auditor has responsibility for both other information and RSI, as is common for governmental entities, we are concerned that a user of the financial statements might be confused by the differing levels of responsibility described in the auditor's report. We further question whether it is appropriate for the RSI standard to contain higher performance requirements, while the proposed other information standard contains more reporting responsibilities. Since reporting on RSI is unique under auditing standards generally accepted in the United States of America, it would not have been contemplated during the international standard-setting process. Thus, we strongly urge the Board to reconsider the proposed reporting requirements in light of the requirements of AU-C section 730. We submit the following suggested language for the Board's consideration.

Other information [included in the annual report]

Management is responsible for the other information, which comprises [the information included in the X report], included in the annual report. In accordance with auditing standards generally accepted in the United States of America, we have read the other information and, in doing so, considered whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We do not express an opinion or provide any assurance on the other information.

In the event the auditor identifies a material inconsistency or material misstatement of the other information, we recommend the following language be added before the last sentence to the above suggested paragraph.

Although our opinion on the basic financial statements is not affected, the following material inconsistency [or material misstatement] exists [identify the inconsistency or misstatement].

We believe the suggested wording is more logical and better aligns the reporting not only with the underlying performance requirements related to other information but also with the related performance and reporting requirements relative to RSI.

Virginia Society of CPAs Accounting & Auditing Advisory Committee

We believe explicit guidance should be included stating that there should be no other matters paragraph added to the auditor's report when the auditor has **not yet completed** the procedures required by this proposed SAS because the annual report is not complete or timely been made available by management to the auditor prior to the date of the auditor's report. We believe the following edit is necessary to paragraph 22:

“22. The auditor's report should include a separate section with the heading “Other Information,” or other appropriate heading, when, at the date of the auditor's report, the auditor has obtained all of the other information.

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However, when the annual report other information is complete and made available by management to the auditor prior to the date of the auditor's report, we believe the following edits are necessary to the example other matters paragraph to avoid confusion regarding the auditor's responsibilities:

“Other Information [Included in the Annual Report]

Management is responsible for the other information [included in the annual report]. The other information comprises the [information included in the X report], but does not include the financial statements and our auditor's report thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our opinion on the financial statements does not cover the other information and we do not express an opinion or any form of assurance on it.”

We believe the last sentence of the example should be deleted to avoid any confusion or inference by users of auditor assurance on the other information. We believe the statement “...We have nothing to report in this regard.” implies some level of implied auditor assurance. We believe that stating management's and the auditor's responsibility regarding the other information and clearly stating that no opinion or any form of assurance is expressed by the auditor is the most effective manner of communication to the users.

Ernst & Young LLP

We support the ASB's efforts to make the auditor's work effort more transparent by describing those responsibilities in the auditor's report. But as stated in our cover letter, we don't believe the proposed standard achieves this objective. We believe there will be limited instances where non-issuers will prepare and provide the auditor with the other information prior to the issuance of the auditor's report. As a result, the auditor would not be required to include the related section describing those responsibilities in the auditor's report.

In addition, we don't support the inclusion of a separate section in the auditor's report addressing other information when the auditor has obtained some, but not all, of the other information to be included in the annual report. We don't believe the proposed reporting requirement would improve the informative value of the auditor's report. In fact, we believe including such communications in the auditor's report could be misleading to users of the financial statements. The application guidance in proposed paragraph .A59 indicates the auditor could consider identifying other information it expects to obtain after the date of the auditor's report. We believe it's potentially misleading to communicate procedures that may possibly be performed on information yet to be obtained without requiring the auditor to later communicate whether the remaining other information was in fact obtained and whether the auditor

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was able to fulfill his or her remaining responsibilities with respect to that other information. As a result, we recommend the auditor only include a section in the auditor's report addressing other information when "all" of the other information is obtained by the auditor prior to release of the auditor's report. We believe our recommendation would reduce the risk of inappropriate inferences by users about the extent of procedures performed or findings, especially in those instances when the entity releases its annual report without sharing an advance copy with its auditors.

Notwithstanding the limited circumstances under which a separate section addressing other information would be included in the auditor's report, we support the Board's efforts to narrow existing expectation gaps by requiring auditors to articulate in their reports their responsibilities under the proposed SAS and the outcome of their work relative to the other information.

However, we believe the reporting recommendations described below would more clearly communicate the auditor's responsibilities regarding other information. They would also help mitigate the risk that investors or other financial statement users would infer that the auditor has a greater responsibility for the other information than is required by the proposed SAS.

In the context of our recommended procedures, we believe the auditor's report should:

- ▶ State that management is responsible for the other information
- ▶ Identify the annual report that contains the other information
- ▶ Indicate that the auditor's opinion does not cover the other information
- ▶ Describe the auditor's responsibilities related to other information by including:
 - ▶ A statement that the auditor's responsibility is to read and perform certain limited procedures on the other information
 - ▶ A statement that in the event the auditor becomes aware that the other information contains a material inconsistency with the audited financial statements or a material misstatement of fact in the other information, or both, that has not been appropriately revised, the auditor is required to describe the inconsistency or misstatement, or both, in the audit report
 - ▶ A statement that the auditor is not responsible for searching for omitted information or for the completeness of the other information presented in the entity's annual report
 - ▶ A statement that the limited procedures do not constitute an audit or review of the other information

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- ▶ A description of the limited procedures performed on other information directly related to the financial statements
- ▶ A statement that the procedures performed on other information unrelated to matters appearing in the financial statements are limited to reading the other information and, based on knowledge obtained in the audit of the financial statements, remaining alert for indications that the other information is materially and incorrectly stated or presented
- ▶ Include either a statement that the auditor has nothing to report or include a description of the uncorrected material inconsistency or material misstatement of fact

Including these communications in the auditor's report would clarify the auditor's responsibilities and help users of the financial statements understand those responsibilities. It would also help mitigate the risk that investors or other financial statement users would infer that the auditor has a greater responsibility for the other information than is required by the proposed standard.

We also recommend that the ASB include additional application guidance that states that because (1) the auditor generally does not have and is not required to have the expertise to evaluate whether other information unrelated to the financial statements is materially misstated, (2) the nature and extent of the procedures required to be performed under this proposed SAS are limited and (3) there aren't any generally recognized standards or frameworks available to assess the presentation of other information prepared by management, the auditor is unable to provide any form of assurance on the other information presented in the entity's annual report.

We recognize that the proposed SAS does not prescribe the location of the Other Information (OI) section in the auditor's report. However, we observe that the example auditor reports in the Board's separate proposed SAS on auditor reporting present the OI section in the middle of the auditor's report, just before the Responsibilities of Management section.

Given the limited procedures performed on the OI and that such procedures don't constitute an audit, we believe the auditor's discussion of OI should be presented at the end of the auditor's report. We recognize that the proposed requirement to use a separate section title would help users understand the difference between the auditor's association with the financial statements from the other information. But requiring the OI section to be as far away as possible from the sections describing the auditor's opinion on the financial statements and the basis for that opinion would underscore the fact that the auditor isn't providing any assurance with respect to the OI. Additionally, prescribing the location of the OI section in the auditor's report would make reporting more consistent.

KPMG LLP

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The reporting requirement introduced by the Proposed Standard will lead to an increased expectation gap among the users of financial statements. The proposed language for the auditor's report implies to users negative assurance on the Other Information. Further, the placement and level of prominence of the reporting is inconsistent with the level of assurance relative to the overall audit. We have also expressed our concerns about the timing of the receipt of Other Information and the effect that has on the optionality in reporting in response to Comment 2.

If the Board proceeds with this Proposed Standard, at a minimum, we believe that the statement that the auditor has "nothing to report" should be eliminated from the required reporting in favor of a statement that the auditor is not aware of a material inconsistency with the financial statements, without providing an explicit conclusion or statement about the results of that work. This would also reduce the effect of our timing concerns noted in response to the request for Comment 2.

Deloitte & Touche LLP

While we believe that the language in the separate section in the auditor's report appropriately conveys the nature and extent of the auditor's consideration, we have several comments as it relates to this section. Given the lack of clarity in the auditor's reporting responsibilities when other information is received after the report date, auditor reporting may be inconsistent and widen the potential or existing expectation gaps for users of the report. As noted earlier, we would not object to removing the requirement to report on the other information in the auditor's report.

National State Auditors Association

We believe that the proposed requirement adequately conveys that the auditor's opinion does not cover the other information and that the auditor does not express an opinion or provide any form of assurance on the other information.

However, we do have a concern with the lack of guidance addressing what auditors should do when other information is obtained after the report issuance date. Paragraph 13 instructs the auditor to obtain other information prior to the date of the auditor's report, if possible. Paragraph A24 clarifies that the auditor is not precluded from dating or issuing the auditor's report prior to obtaining some or all of the other information. We believe it is inappropriate for the auditor to issue a report describing the auditor's responsibilities and whether there is anything to report concerning other information when the auditor has not yet received the information to review. Specifically, we do not believe A59 provides adequate guidance regarding procedures over other information the auditor is yet to perform. We suggest the board provide additional guidance in paragraphs A24 and A59 to address this situation.

Additionally, proposed paragraph A63 does not prohibit auditors from including in an adverse opinion unmodified language for other information that "We have nothing to report in this regard." We are concerned about allowing unmodified language about other information in these circumstances for the same reasons it is not allowed for disclaimers of opinion articulated in proposed paragraph A64, which is that including a section to

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address other information might overshadow the adverse opinion on the financial statements as a whole. We suggest the board revise paragraph A63 to be consistent with paragraph A64.

Issues with a requirement to report on other information (preference to leave extant reporting “option” as is)

Anders Minkler Huber and Helm, LLP

We feel very strongly that the inclusion of a separate section in the auditor’s report addressing other information will inappropriately imply that the auditor is expressing an opinion or conclusion on the other information. Furthermore, we believe the communication as proposed, would be far more appropriate in a management letter or communication to those charge with governance.

California Society of CPAs’ Accounting Principles and Assurance Services Committee

The committee feels this requirement should not be required but allowed to be optional. Once the auditor issues an audit report, they cannot control when and in what subsequent context the report appears and whether the information contained in the annual report may change. Since there is no requirement for the auditor to “consent” or “re-issue” an audit report with an annual report, this requirement should be optional as is in current practice.

Conversely, we believe the absence of a statement about include other information should be sufficient for most readers of the financial statements.

Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants

Although the Committee agrees with substantially all of the proposed changes to the standard, we however take exception to the requirement to include a separate section in the auditor’s report. It is our opinion it should remain optional depending upon the facts and circumstances and left up to the auditor’s judgment. We believe the added section while not expanding the scope of the engagement, places additional unwarranted burden on the auditor and believe transparency is accomplished when applicable, by way of including a separate section if warranted.

BDO USA, LLP

We generally do not support the use of a separate section in the auditor’s report, as set out in the proposed standard, since we believe there is the potential for users to misunderstand the level of service provided with respect to the other information, irrespective of the statement included in the ‘Other Information’ section of the report that states, *Our opinion on the financial statements does not cover the other information and we do not express an opinion or any form of assurance on it.* Furthermore, since the proposed standard correctly does not apply to information that is not related to the financial statements - since the auditor would ordinarily not have obtained any relevant knowledge of such matters during the audit – users may not recognize this differentiation in types of information.

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PricewaterhouseCoopers LLP

We have fundamental concerns with the ASB moving ahead with its reporting proposals. We believe the reporting as proposed will increase the expectations gap by requiring language in the auditor's report that is ambiguous and susceptible to a wide array of interpretation by users - in particular, when compared with the nature and extent of the auditor's effort set out in the proposed SAS.

The proposed other information paragraph of the auditor's report includes the statement "...or otherwise appears to be materially misstated" in reference to other information not related to the financial statements or the auditor's knowledge obtained in the audit. We do not think users will understand the limited nature of the procedures the auditor would perform on this type of other information based on the way the reporting has been drafted (i.e., remain alert to whether such information appears to be materially misstated).

Our concerns in relation to reporting can be illustrated when considering the list of matters that may be in other information as described in paragraph A15 of the proposed SAS. A company could include in its annual report a statement that its system of internal control was operating with no deficiencies, but in a financial statement only audit for a non-public company we would not have a sufficient basis to form a conclusion on this statement. We may have assessed some of the controls for operating effectiveness, and thus, might have knowledge to assess if management's statement was accurate for those controls, but we would be unable to fully consider the statement to determine if this statement is a material misstatement of fact or whether the other information is materially misstated. Based on how the reporting is drafted in the proposed SAS, it is likely users might interpret the auditor's statement that there is nothing to report as concurrence with management's statement on the control environment.

We believe today's requirement for the auditor to include an Other Matter paragraph when a material inconsistency is identified and the other information has not been corrected remains appropriate. This requirement could also be extended to circumstances in which a material misstatement of fact is identified and the other information has not been corrected. Finally, the ASB could consider whether greater specificity in terms of the required Other Matter paragraph would be useful (e.g., a required heading such as *Other Information Accompanying the Audited Financial Statements*).

Multiple Reports

Confusion may arise to the extent that the financial statements and the auditor's report are included within multiple documents by a company if a discrete conclusion on other information is included in our report. Application guidance in paragraph A21 acknowledges, but does not provide a solution to, the fact that "there may also be circumstances in which the company's annual report is a combination of documents,

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each subject to different requirements or reporting practice by the company with respect to the timing of their release.”

Further clarification is necessary in particular if the auditor is required to expressly identify the other information in the auditor’s report. Additionally, as a practical challenge, to the extent the financial statements and auditor’s report are subsequently included in a separate document (e.g., an exempt securities offering) the auditor’s report may need to be reissued to remove reference to the previous annual report or to potentially reference the exempt securities offering. We are concerned there is no guidance in the proposed SAS to address implications for the dating and potential reissuance of the auditor’s report.

Finally, we believe there are practical challenges with the suggestion in paragraph A59 of providing transparency when other information has not been obtained as of the date of the auditor’s report, and suggest this guidance be removed.

Action Requested of ASB

The Task Force asks that each individual ASB member provide a clear response as to whether they continue to support the proposed requirement for the auditor to include a separate section in the auditor’s report addressing other information. For those ASB members who express that they do not support the proposed requirement, such members are asked:

- Unless they were not on the ASB at the time that the vote to expose the proposed standard for public comment was made, what has caused such member to change their position?
- Would such member consider supporting a revision such that there is a reporting requirement but that the requirement is modified or does such member believe that a requirement to include an other-matter paragraph in the auditor’s report addressing other information is a fatal flaw?
- If the member would support revised reporting requirements, what should such revisions entail? No required reporting unless all information is received prior to the date of the auditor’s report on the financial statements? Revisions to the required report language such as aligning with the reporting requirements for required supplementary information?

Performance

In accordance with the proposed standard, the objectives of the auditor, having read the other information, include the following:

- a. Consider whether there is a material inconsistency between the other information and the financial statements.
- b. Consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit.

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- c. Respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated.

In accordance with the definition in the proposed SAS, “a misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).” The term *misstatement of the other information* is intended to be broader than but to encompass the defined terms *inconsistency* and *misstatement of fact* from extant AU-C section 720. Those terms are defined in extant AU-C section 720 as follows:

Inconsistency. Other information that conflicts with information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.

Misstatement of fact. Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements.

Further, extant AU-C section 720 does not require the auditor to consider whether the other information omits or obscures information necessary for a proper understanding of a matter. To provide guidance to auditors with respect to this point, the proposed SAS includes the following application paragraphs:

A12. When a particular matter is disclosed in the other information, the other information may omit information that is necessary for a proper understanding of that matter or, in light of the circumstances, to keep the other information from being misleading. The auditor is not responsible for searching for omitted information or for the completeness of the other information.

A13. Other information may be undermined by the inclusion of information that is not relevant or that obscures a proper understanding of the matters disclosed.

The Task Force believes that the proposed standard can retain the concepts of *inconsistency* and *misstatement of fact* from extant AU-C section 720 and clarify that *inconsistencies* relate to differences between the other information and the audited financial statements and that *misstatement of fact* relates to matters outside of the audited financial statements. The Task Force believes that retaining the concepts from extant AU-C section 720 would not result in an “ISA minus” situation.

Comment letters received that are not supportive of the proposed performance requirements

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The exposure draft of the proposed standard included a specific request for comment which asked:

- Will the work effort required by the proposed standard, in view of the proposed definitions, result in an improvement of the auditor's understanding of the auditor's responsibility for other information and, as a result, enable the auditor to perform a more thorough reading and challenging of statements included in (or omitted from) the other information that are inconsistent with the audited financial statements or the auditor's knowledge obtained as part of the audit?
- Does the proposed SAS provide adequate guidance with respect to the auditor's consideration of omitted or obscured information?

Several comment letters raised certain specific concerns with respect to the proposed requirements. Specific language from the individual comment letters are as follows:

Alexander, Aronson, Finning & Co.

In order to avoid confusion about the auditor's responsibility for reading the other information in the annual reports, we recommend to replace the term "misstatement of the other information" with "inconsistency of the other information," and redefine the "inconsistency" from the extant AU-C 720 to meet the objective of the proposed SAS.

Baker Tilly Virchow Krause LLP

We believe that the guidance related to the auditor's consideration of omitted information should be clarified. The performance requirements in paragraph 15 do not specifically mention omitted information, but the definition of a misstatement of other information includes the following, "...omits...information necessary for a proper understanding of a matter disclosed in the other information," therefore, it is implied that the auditor is responsible for considering whether other information has been omitted. While paragraph .A13 clarifies that the auditor is not responsible for searching for omitted information, we believe that the guidance in the proposed standard should be further enhanced by adding guidance that the auditor is only responsible for "obvious" omissions. We do not believe that merely reading other information is sufficient for an auditor to be expected to identify anything other than obvious misstatements.

National Association of State Boards of Accountancy (NASBA)

NASBA believes that when evaluating the other information for consistency with the audited financial statements and misstatement, the auditor should utilize all the knowledge about the client that the engagement team has, not just the knowledge specifically obtained as part of the audit. NASBA notes the requirement in proposed paragraph 16 and the application guidance in proposed paragraphs A43-44 which involves the auditor's consideration of other information obtained from sources beyond the audit. However, we believe it is difficult to distinguish between information from and not from the audit, and believe such differentiation in the proposed standard causes unnecessary complexity and confusion.

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PricewaterhouseCoopers

New definition of a “misstatement of the other information”

We do not support the proposed change from “material inconsistency” and “material misstatement of fact” to a broader concept of a “[material] misstatement of the other information.” We believe the incorporation of new terminology (and changes to the related performance requirements) will cause practical challenges and potentially increase confusion about the auditor’s responsibilities for other information that is not directly related to, or derived from, the financial statements (referred to hereafter as “nonfinancial other information”).

We are fundamentally concerned with the new definition of a “misstatement of the other information,” which expands the auditor’s role to require consideration of whether nonfinancial other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of the matter). Paragraph A12 of the proposed SAS appropriately explains “the auditor is not responsible for searching for omitted information or for the completeness of the other information.” We believe an auditor performing a financial statement audit pursuant to ASB standards often will not have a sufficient basis for determining whether nonfinancial other information is incorrectly stated or otherwise misleading. Given the diverse types of nonfinancial other information that may be addressed in the other information, (1) there are often no standards or framework against which to assess the presentation of such information, including its completeness, and (2) the auditor may not have the expertise to assess the validity of statements made in relation to matters unrelated to the audit of the financial statements. The PCAOB explicitly acknowledges these limitations in AS 2710 with respect to nonfinancial other information.

To overcome these practical challenges, we suggest the ASB retain the terminology from AU-C section 720 and PCAOB AS 2710 rather than aligning with the ISA terminology. The distinction between a “material inconsistency” when dealing with other information that is related to the financial statements and a “material misstatement of fact” related to nonfinancial other information is understood in practice today, and using different terms acknowledges the difference in the auditor’s responsibility with regard to each category of information. Since the intent is to strengthen the auditor’s work effort in relation to the two types of other information, this should be accomplished by changing the performance requirements instead of changing the terminology.

Knowledge obtained in the audit

We have concerns with the proposed changes to the objectives in paragraph 11 and the requirement in paragraph 15b in relation to explicitly considering whether there is a material inconsistency between the other information and “the knowledge obtained in the audit in the context of audit evidence obtained and conclusions reached in the audit.” The auditor can bring the knowledge obtained as part of the audit to bear when reading and considering the other information and considering whether there is a

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material misstatement of fact - but there are limits to what is practically achievable and reasonable to expect. While we understand these changes are intended to result in an “intelligent read” of the other information, they will result in a number of practical challenges. We believe further clarification would be needed regarding the following to help auditors consistently apply the requirement:

- The auditor’s procedures, including risk assessment procedures, are designed to enable the auditor to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor’s opinion on the financial statements as a whole, not to obtain audit evidence regarding other information. Paragraph 3 of the proposed SAS notes appropriately that the auditor is not required to obtain audit evidence beyond that required to form an opinion on the financial statements. However, we are concerned reference to the knowledge obtained in the audit seems to include *all* information gathered during an audit, not just the information subject to audit procedures or information necessary to conduct the audit. For example, paragraph A36 of the proposed SAS refers to matters arising from the auditor’s risk assessment, and paragraphs A35 and A37 give specific examples of other matters, including those that are prospective in nature. Many procedures performed during the course of an audit involve formal and informal interactions with company personnel who provide context necessary to understand, for example, which types and pieces of information are relevant to the financial statements. Information learned during this process that does not appear relevant to the financial statements may not be perceived as noteworthy and/or may not be documented in the auditor’s workpapers. For this reason, it will be challenging—particularly with respect to information received by the auditor significantly prior to its receipt of the draft annual report—for the auditor to determine whether he or she has obtained information during the course of the audit relevant to other information in a company’s annual report.
- We believe the proposed SAS could be viewed as requiring the auditor to make an explicit determination about whether any knowledge obtained during the audit related to the financial and nonfinancial matters described in the other information. It is unclear what procedures the auditor may need to perform in order to determine whether a material inconsistency or material misstatement of fact exists if the information in the audit file does not agree to the other information.
- The further the other information is removed from being related to the audited financial statements, the greater the likelihood that it is unrealistic and impracticable for an auditor to be able to determine that a *misstatement* of the other information exists, even based on the knowledge obtained in the audit. However, because the proposed SAS nevertheless requires the auditor to make such a determination despite limited information and expertise, auditors may be inappropriately held responsible for any subsequently detected omission in that information.

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- If the auditor does not identify a material misstatement within the nonfinancial other information, it would not be reasonably possible to determine whether the auditor (1) did not obtain the knowledge that would have enabled them to identify the material misstatement, or (2) obtained the information but did not document such knowledge in the workpapers. In the first instance, it may not have been necessary for the auditor to obtain information about the particular matter if it was not relevant to the audit. Similarly, in the second instance, it may not have been necessary for the auditor to document the information if it was not relevant to the audit. We are therefore concerned that the proposed SAS could drive unnecessary documentation if it is not clear where the boundaries are in relation to considering knowledge obtained in the audit and how audit documentation is to be used.

[Note: PricewaterhouseCoopers LLP’s comment letter goes into significantly more detail with respect to the aforementioned concerns. See Agenda item 4B for additional details.]

Ernst & Young LLP

We do not support broadening the auditor’s responsibility introduced by the proposed definition of misstatement of other information and the corresponding performance requirements. Auditors may not have the expertise to assess the validity of certain statements that are not directly related to the audited financial statements, and the Board’s proposal would make it more difficult for auditors to comply with the proposed performance requirements. We also believe the proposed performance and reporting requirements need to be clarified to make them operable and capable of being consistently applied.

Proposed definition of misstatement of the other information

We don’t support the Board’s proposal to broaden the auditor’s responsibilities by introducing the term “misstatement of the other information” to AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*.

Under the proposed SAS, a misstatement of other information would exist “when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).” Determining what may be “misleading” to a reader or what may be “necessary for a proper understanding of a matter disclosed in the other information” would be inherently subjective and it would be difficult for auditors to understand how they would be expected to demonstrate compliance. We recognize that similar language has already been adopted in many foreign jurisdictions, but we don’t believe the proposed SAS is sufficiently clear and operable for practitioners in the US, given our unique legal environment.

We recommend that the ASB use the existing definitions of “inconsistency” and “misstatement of fact” and add language to make it clear that the term “inconsistency” is associated with information directly related to the financial statements and “misstatement of fact” is associated with information not directly related to the financial statements, rather than introduce vague new terms.

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Performance responsibilities and documentation requirements

We support the Board's goal to clarify and codify the auditor's performance responsibilities related to other information. However, we don't believe the proposal is sufficiently clear about what the auditor would have to do.

For example, we recognize that auditors must use knowledge gained during the audit when considering whether they are aware of a misstatement of the other information included in the annual report. However, the proposed SAS doesn't sufficiently prescribe the nature and extent of procedures to be performed or the extent of documentation that would be required to evidence the auditor's fulfillment of the performance responsibilities related to these considerations. We believe the recommendations we provide in this letter would help focus the auditor's documentation efforts by more clearly articulating the auditor's performance responsibilities that go beyond reading the other information.

Procedures for other information directly and not directly related to the audited financial statements

We believe the ASB should revise the proposed requirements to make a clearer distinction between the performance requirements related to the other information that is directly related to the audited financial statements and the other information that is not. The risk is that auditors may not have the expertise to assess the validity of the other information that is not directly related to the audited financial statements.

We recommend that the ASB require the auditor to perform certain procedures to compare the other information directly related to the financial statements included in the annual report to the audited financial statements, which would include information derived from the accounting records that support the audited financial statements, and to check the mathematical accuracy of the other information directly related to the financial statements.

With respect to other information not directly related to the audited financial statements, we believe the auditor's performance responsibilities should be consistent with existing requirements in AU-C 720.16 and should be limited to reading the other information and responding accordingly if, based on knowledge gained during the course of the audit, the auditor becomes aware of any potential material misstatements of fact.

[Note: Ernst & Young LLP's comment letter goes into significantly more detail with respect to the aforementioned concerns. See Agenda item 4B for additional details.]

KPMG LLP

The performance requirements should be limited to comparing the Other Information included in an annual report to the amounts in the financial statements and the accounting records that are subject to the audit, or have been derived directly from those accounting records. Requiring the auditor to consider material inconsistencies

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between Other Information and the auditor's knowledge obtained in the audit is too broad and may be misunderstood by users of the auditor's report as going beyond the scope of a financial statement audit.

[Note: KPMG LLP's comment letter goes into significantly more detail with respect to the aforementioned concerns. See Agenda item 4B for additional details.]

Action Requested of ASB

The Task Force asks that each individual ASB member provide a clear response as to whether they continue to support the proposed performance requirements. For those ASB members who express that they do not support the proposed requirements, such members are asked:

- Unless they were not on the ASB at the time that the vote to expose the proposed standard for public comment was made, what has caused such member to change their position?
- If the member would support revised performance requirements, what would such revisions entail? Retain extant concepts of *inconsistency* and *material misstatement of fact*? What would the auditor's responsibility be for omitted or obscured information?

Overall Direction to the Task Force

The ASB is asked to advise the Task Force as to whether:

- a) The project should continue moving forward and a revised draft standard should be presented to the ASB at its meeting in October 2018 that is in convergence with ISA 720 (Revised)
- b) The project should continue moving forward and the Task Force should present a discussion paper at the ASB's meeting in October 2018 that addresses the significant concerns related to reporting and performance.
- c) The project should be placed on hold.

Agenda Items Presented:

Agenda item 4A Exposure Draft proposed SAS, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*

Agenda item 4B Summary of responses to the exposure draft of the proposed SAS, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*