



Agenda Item 4A

EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS

*THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION INCLUDED IN
ANNUAL REPORTS*

*(To supersede AU-C section 720, Other Information in Documents Containing Audited Financial Statements
[AICPA, Professional Standards].)*

November 28, 2017

Comments are requested by May 15, 2018

Prepared by the AICPA Auditing Standards Board for comment from persons interested in auditing and reporting
issues

Comments should be addressed to Mike Glynn at mike.glynn@aicpa-cima.com.



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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background on the proposed Statement on Auditing Standards (SAS) *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*. The proposed SAS will supersede AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*.¹

Background

The Auditing Standards Board (ASB) recognizes the importance of standards harmonization, both within the United States and between countries. The pervasiveness of international business activity supports the closer harmonization of audit and attest services to provide efficient, high-quality audit services that meet the needs of a wide community of users. The integrity of reporting on financial information is strengthened when auditing standards are harmonized to a high level of quality. Thus, the ASB has a strategic objective of contributing to the development of high-quality auditing, attestation, and quality control standards of the International Auditing and Assurance Standards Board (IAASB). The ASB also has a strategic objective to converge its standards with those of the IAASB, while avoiding unnecessary differences between its standards and those of the Public Company Accounting Oversight Board.

In accordance with that strategy, the ASB observed and provided input to the IAASB's project to clarify and increase the auditor's involvement with *other information*—defined as financial or nonfinancial information (other than financial statements and the auditor's report thereon)—included in an entity's annual report.

In April 2015, the IAASB issued International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*. ISA 720 (Revised) includes new requirements related to auditor reporting on other information that are intended to complement the changes arising from the January 2015 issuance of new and revised ISAs relating to reporting on audited financial statements. The ASB has exposed for public comment a separate set of proposed standards to converge with the auditor reporting ISAs:

- *Omnibus Statement on Auditing Standards—2018*
- *Auditor Reporting*

¹ All AU-C sections referenced in this exposure draft can be found in AICPA *Professional Standards*.

You can find these exposure drafts at
<https://www.aicpa.org/research/exposuredrafts/accountingandauditing.html>

Convergence

In accordance with the strategy described the first paragraph under “Background,” the ASB determined it was appropriate to use ISA 720 (Revised) as the base in making the proposed revisions to AU-C section 720.

The ASB has made certain changes to the language of ISA 720 (Revised) to use terms or phrases that are more common in the United States, and to tailor examples and guidance to the U.S. environment. However, the ASB believes that such changes will not create substantive differences in application between ISA 720 (Revised) and the proposed SAS.

Benefits of the Proposed SAS

The ASB believes that, if issued as a final standard, the proposed SAS will benefit users of audited financial statements and other information in the following ways:

- By improving audit quality by bringing greater consistency regarding auditors’ consideration of other information and reducing diversity in practice with respect to documents that are considered to be within the scope of the proposed SAS;
- By increasing the value of the audit, without changing its scope, in a cost-beneficial manner, through enhancing the auditor’s responsibility with respect to the other information; and
- By narrowing 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 the other information

See the subsequent section “Changes From Extant Standards” for a summary of the changes to extant AU-C section 720 that would result from the proposed SAS.

Format of the Exposure Draft

This exposure draft is presented in columnar format in which requirements and related application guidance are presented side by side instead of in the more customary sequential presentation. This approach has been efficient for the ASB in developing and reviewing the proposed SAS, and it is used here for the benefit of respondents. The final SAS will be issued in the traditional format.

Effective Date

If issued as final, the proposed SAS will be effective for audits of financial statements for periods beginning on or after June 15, 2019. This effective date is provisional but will not be earlier than June 15, 2019. Early implementation is not permitted.

Changes From Extant Standards

The following summarizes what the ASB believes would be the most significant changes to extant AU-C section 720 if the proposed standard is issued.

The supplementary material accompanying this exposure draft includes a document that provides a detailed comparison of the proposed SAS to ISA 720 (Revised) and extant AU-C section 720. This document may be helpful for respondents in further understanding the changes being proposed.

Clarification of Documents That Are Within the Scope of the Standard

The proposed standard clarifies the scope of documents that the auditor is required to subject to the procedures. The ASB believes that in practice, extant AU-C section 720 is often applied more broadly than intended. Though the title of extant AU-C section 720 is *Other Information in Documents Containing Audited Financial Statements*, paragraph .02 of AU-C section 720 states *documents containing audited financial statements* refers to annual reports (or similar documents) that are issued to owners (or similar stakeholders) and annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public that contain audited financial statements and the auditor's report thereon. Accordingly, the title of the proposed SAS is *The Auditor's Responsibilities Regarding Other Information Included in Annual Reports*.

Annual report is defined in paragraph 12 of the proposed SAS as follows:

Annual report. A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains, accompanies, or incorporates by reference the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. Annual reports include annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public.

To further clarify, paragraph A10 of the proposed standard states that though a document may be referred to as an annual report, such document may not meet the definition of annual report for purposes of this proposed SAS.

Paragraph 9 of the proposed standard states that the standard does not apply to supplemental information addressed by AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, or required supplementary information addressed by AU-C section 730, *Required Supplementary Information*. Paragraph A3 further states that other AU-C sections provide requirements and guidance with respect to information in certain documents other than annual reports (for example, AU-C section 945, *Auditor Involvement With Exempt Offering Documents*).

Specific Request for Comment 1

Do the proposed revisions clarify the scope of documents required to be subjected to the auditor's procedures? If you believe additional revisions or guidance is necessary, please be specific and provide reasons why additional revisions or guidance is necessary.

Determining Which Documents Constitute the Entity's Annual Report

The proposed standard includes a requirement for the auditor to determine, through discussion with management, and obtain management's written acknowledgment regarding, which document or documents make up the annual report, and the entity's planned manner and timing of the issuance of such document or documents.² This requirement is intended to ensure that both the auditor and management understand the documents that are considered to constitute the entity's annual report and therefore are subject to the auditor's required procedures.

Specific Request for Comment 2

Does the proposed requirement for the auditor to determine, through discussion with management, and obtain management's written acknowledgment regarding, which document or documents make up the annual report, and the entity's planned manner and timing of the issuance of such documents appropriately achieve the intent of ensuring that both the auditor and management understand the documents that are considered to constitute the entity's annual report and therefore are subject to the auditor's procedures required by the proposed SAS?

Reading the Other Information

In accordance with the proposed SAS, 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.

² Paragraph 13 of the proposed SAS, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*

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

The proposed SAS expands and clarifies the auditor's responsibilities with respect to other information. Further, 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.

Specific Request for Comment 3

- 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?

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

In accordance with paragraph 15*b* of the proposed SAS, the auditor is required to read the other information and, in doing so, consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. To address implications in a group audit situation, the proposed SAS includes the following application guidance:

A38. In the case of a group audit, though the group auditor is required to read the entirety of the other information if, in accordance with paragraph .24 of AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, the group auditor decides to make reference to a component auditor in the auditor’s report on the group financial statements, the group auditor’s knowledge does not extend beyond that obtained by the group auditor during the audit of the group financial statements.

Specific Request for Comment 4

Does the proposed SAS provide adequate guidance for group auditors when a group auditor decides to make reference to a component auditor in the auditor’s report on the group financial statements?

Reporting

The proposed SAS requires 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. The intent is to bring transparency of the auditor’s work with respect to other information.

Extant AU-C section 720 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.

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. The illustration is included in an appendix to the proposed SAS along with other illustrations.

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],³ but does 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.

Specific Request for Comment 5

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?

Guide for Respondents

Please provide comments on specific requests for comment nos. 1–5 as well as any general comments on the content of the proposed SAS.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and (when appropriate) make specific recommendations for any suggested changes to wording. If you agree with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the AICPA offices after May 15, 2018, for a period of one year. Responses should be sent to Mike Glynn at mike.glynn@aicpa-cima.com by May 15, 2018.

³ A more specific description of the other information, such as “the management report and chairman’s statement,” may be used to identify the other information.

Supplement to the Exposure Draft

To assist respondents in identifying changes and in responding to this request to comment on the proposed SAS, the Audit and Attest Standards staff has prepared a document that provides a detailed comparison of the proposed SAS to ISA 720 (Revised) and extant AU-C section 720. The document is structured in four columns as follows:

1. ISA 720 (Revised)
2. Extant AU-C section 720
3. The requirements and application material of the proposed SAS, marked to show differences in language between ISA 720 (Revised) and the proposed SAS
4. Comments

This staff-prepared supplementary material is available on the AICPA website at <https://www.aicpa.org/research/exposedrafts/accountingandauditing.html>. It is for informational purposes only and does not form part of the exposure draft; however, it may be useful for respondents in formulating comments.

Comment Period

The comment period for this exposure draft ends on May 15, 2018.

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Proposed Revised AU-C section 720, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*

ISA 720 (Revised) used as base.⁴

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|--|---|
| Introduction | |
| Scope of This Proposed SAS | Scope of This Proposed SAS (Ref: par. 1–2 and 9) |
| 1. This proposed Statement on Auditing Standards (SAS) addresses the auditor’s responsibilities relating to other information, whether financial or nonfinancial information (other than financial statements and the audi- | A1. There may be circumstances in which, at the date of the auditor’s report, the entity is considering the development of a document that may constitute or may be part of the entity’s annual report (for example, a voluntary report to stakeholders) but management is unable to confirm to the auditor the purpose of such a document. If the auditor is unable to ascertain the purpose of such a document or whether it will be issued, |

⁴ ISA 720 (Revised) © April 2015 by the International Federation of Accountants (IFAC). All rights reserved. Reproduced with the permission of IFAC.

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|---|---|
| <p>tor’s report thereon), included in an entity’s annual report. An entity’s annual report may be a single document or a combination of documents that serve the same purpose. (Ref: par. A1)</p> | <p>the document is not considered other information for purposes of this proposed SAS.</p> |
| <p>2. This proposed SAS also may be applied, adapted as necessary in the circumstances, to other documents to which the auditor, at management’s request, devotes attention. (Ref: par. A2–A4)</p> | <p>A2. In instances in which the auditor applies this proposed SAS to other documents to which the auditor, at management’s request, devotes attention, all of the requirements of this proposed SAS, including those requirements regarding reporting, are applicable, adapted as necessary in the circumstances.</p> <p>A3. Other AU-C sections provide requirements and guidance with respect to information in certain documents other than annual reports. For example, AU-C section 945, <i>Auditor Involvement With Exempt Offering Documents</i>.</p> <p>A4. This proposed SAS also addresses other information for which a designated accounting standard setter¹ has issued standards or guidance regarding the format to be used and content to be included when such information is voluntarily presented in an annual report—for example, GASB Statement No. 44, <i>Economic Condition Reporting: The Statistical Section</i>.</p> |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
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| | <p>¹ <i>Designated accounting standards setter</i> is defined in paragraph .04 of AU-C section 730, <i>Required Supplementary Information</i>.</p> |
| <p>3. This proposed SAS is written in the context of an audit of financial statements by an independent auditor. Accordingly, the objectives of the auditor in this proposed SAS are to be understood in the context of the overall objectives of the auditor as stated in paragraph .12 of AU-C section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards</i>. The requirements in the standards are designed to enable the auditor to achieve the objectives specified in the standards, and thereby the overall objectives of the auditor. The auditor’s opinion on the financial statements does not cover the other information, nor does this proposed SAS require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.</p> | |
| <p>4. This proposed SAS requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor’s knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the</p> | |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|--|---|
| <p>auditor’s report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor’s report is prepared.</p> | |
| <p>5. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail about amounts or other items in the financial statements and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may also include other matters.</p> | |
| <p>6. The auditor’s responsibilities relating to other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to or after the date of the auditor’s report.</p> | |
| <p>7. The auditor’s responsibilities under this proposed SAS do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.</p> | |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|--|---|
| <p>8. Law or regulation may impose additional obligations on the auditor in relation to other information that are beyond the scope of this proposed SAS.</p> | |
| <p>9. This proposed SAS does not apply to supplemental information addressed by AU-C section 725, <i>Supplementary Information in Relation to the Financial Statements as a Whole</i>, or required supplementary information addressed by AU-C section 730, <i>Required Supplementary Information</i>. (Ref: par. A3)</p> | |
| <p>Effective Date</p> | |
| <p>10. This proposed SAS will be effective for audits of financial statements for periods beginning on or after June 15, 2019.* Early implementation is not permitted.</p> <p>*This proposed effective date is provisional but will not be earlier than June 15, 2019.</p> | |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|---|---|
| Objectives | |
| <p>11. The objectives of the auditor, having read the other information, are as follows:</p> <ul style="list-style-type: none"> <i>a.</i> To consider whether there is a material inconsistency between the other information and the financial statements <i>b.</i> To consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit <i>c.</i> To 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 <i>d.</i> To report in accordance with this proposed SAS | |
| Definitions | Definitions |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|--|--|
| <p>12. For purposes of the auditing standards, the following terms have the meanings attributed below:</p> <p>Annual report. A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. An annual report contains, accompanies, or incorporates by reference the financial statements and the auditor’s report thereon and usually includes information about the entity’s developments, its future outlook and risks and uncertainties, a statement by the entity’s governing body, and reports covering governance matters. Annual reports include annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public. (Ref: par. A5–A11)</p> | <p><i>Annual Report</i> (Ref: par. 12)</p> <p>A5. Law, regulation, or custom may define the content of an annual report and the name by which it is to be referred.</p> <p>A6. An annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements.</p> <p>A7. In some cases, an entity’s annual report may be a single document and referred to by the title “Annual Report” or by some other title. In other cases, law, regulation, or custom may require the entity to report to owners (or similar stakeholders) information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements (that is, an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose.</p> |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|---|---|
| | <p>A8. An annual report may be made available to users in printed form, or electronically, including on the entity’s website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.</p> <p>A9. An annual report is different in nature, purpose, and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as stand-alone documents, are not typically part of the combination of documents that make up an annual report (subject to law, regulation, or custom), and that, therefore, are not other information within the scope of this proposed SAS, include the following:</p> <ul style="list-style-type: none"> • IRS Form 990, <i>Return of Organization Exempt From Income Tax</i> • IRS Form 5500, <i>Annual Return/Report of Employee Benefit Plan</i> • Annual statement filed with National Association of Insurance Commissioners • Separate industry or regulatory reports (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and pension industries |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|---|---|
| <p>Misstatement of the other information. A misstatement of the other information exists when the other information is incorrectly stated or</p> | <ul style="list-style-type: none"> • Corporate social responsibility reports • Sustainability reports • Diversity and equal opportunity reports • Product responsibility reports • Labor practices and working conditions reports • Human rights reports <p>A10. Though a document may be referred to as an annual report, such document may not meet the definition of an annual report for purposes of this proposed SAS.</p> <p><i>Considerations Specific to Governmental Entities</i></p> <p>A11. The term <i>annual reports of governments</i> is intended to include comprehensive annual financial reports or other annual financial reports that include the government's financial statements and the auditor's report thereon.</p> <p><i>Misstatement of the Other Information</i> (Ref: par. 12)</p> <p>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</p> |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
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| <p>otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information). (Ref: par. A12–A14)</p> | <p>other information from being misleading. The auditor is not responsible for searching for omitted information or for the completeness of the other information.</p> <p>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.</p> <p>A14. The concept of materiality may be discussed in a framework applicable to the other information and, if so, such a framework may provide a frame of reference for the auditor in making judgments about materiality under this proposed SAS. In many cases, however, there may be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such circumstances, the following characteristics provide the auditor with a frame of reference in determining if a misstatement of the other information is material:</p> <ul style="list-style-type: none">• Materiality is considered in the context of the common information needs of users as a group. The users of the other information are expected to be the same as the users of the financial statements because such users may be expected to read the other information to provide context to the financial statements. |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
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| <p>Other information. Financial or nonfinancial information (other than financial statements and the auditor’s report thereon) included in an entity’s annual report. (Ref: par. A15)</p> | <ul style="list-style-type: none"> • Judgments about materiality take into account the specific circumstances of the misstatement, considering whether users would be influenced by the effect of the uncorrected misstatement. Not all misstatements will influence the economic decisions of users. • Judgments about materiality involve both qualitative and quantitative considerations. Accordingly, such judgments may take into account the nature or magnitude of the items that the other information addresses in the context of the entity’s annual report. <p><i>Other Information</i> (Ref: par. 12)</p> <p>A15. The following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive:</p> <ul style="list-style-type: none"> • Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors’ report) • Chairman’s statement • Corporate governance statement • Management’s internal control and risk assessment reports |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
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| | <ul style="list-style-type: none"> • Financial summaries or highlights • Employment data • Planned capital expenditures • Financial ratios • Names of officers and directors • Selected quarterly data |
| Requirements | |
| Obtaining the Other Information | Obtaining the Other Information (Ref: par. 13–14) |
| <p>13. The auditor should do the following: (Ref: par. A16–A26)</p> <p style="padding-left: 40px;"><i>a.</i> Determine, through discussion with management, and obtain management’s written acknowledgment regarding, which document or documents compose the annual report, and the entity’s planned manner and timing of the issuance of such documents.</p> <p style="padding-left: 40px;"><i>b.</i> Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor’s</p> | <p>A16. Determining the document or documents that make up the annual report is often clear based on law, regulation, or custom. In many cases, management or those charged with governance may have customarily issued a package of documents that together make up the annual report, or may have committed to do so. In some cases, it may not be clear which documents make up the annual report. In such cases, the timing and purpose of the documents (and for whom they are intended) are matters that</p> |

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| <p>report, the final version of the document or documents composing the annual report.</p> | <p>may be relevant to the auditor’s determination of which documents are the annual report.</p> <p>A17. Management’s written acknowledgment of the documents that constitute the annual report and the expected timing that such documents will be made available to the auditor may be included in the engagement letter, an amendment to the engagement letter, a representation letter, or some other written communication.</p> <p>A18. Management, or those charged with governance, is responsible for preparing the annual report. The auditor may communicate the following to management or those charged with governance:</p> <ul style="list-style-type: none">• The auditor’s expectations in relation to obtaining the final version of the annual report (including a combination of documents that together make up the annual report) in a timely manner prior to the date of the auditor’s report such that the auditor can complete the procedures required by this proposed SAS before the date of the auditor’s report, or if that is not possible, as soon as practicable and in any case prior to the entity’s issuance of such information |

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| | <ul style="list-style-type: none"> • The possible implications when the other information is obtained after the date of the auditor’s report <p>A19. The communications referred to in paragraph A18 may be particularly appropriate in the following instances:</p> <ul style="list-style-type: none"> • In an initial audit engagement • When there has been a change in management or those charged with governance • When other information is expected to be obtained after the date of the auditor’s report <p>A20. When those charged with governance are to approve the other information prior to its issuance by the entity, the final version of such other information is the version that has been approved by those charged with governance for issuance.</p> <p>A21. In some cases, the entity’s annual report may be a single document to be released, in accordance with law or regulation or the entity’s reporting practice, shortly after the entity’s financial reporting period such that it is available to the auditor prior to the date of the auditor’s report. In other cases, such a document may not be required to be released until a later time, or at a time of the entity’s choosing. There may also be</p> |

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| | <p>circumstances in which the entity’s annual report is a combination of documents, each subject to different requirements or reporting practice by the entity with respect to the timing of their release.</p> <p>A22. Obtaining the other information in a timely manner prior to the date of the auditor’s report enables any revisions that are found to be necessary to the financial statements, the auditor’s report, or the other information prior to their issuance. The audit engagement letter² may make reference to an agreement with management to make available to the auditor the other information in a timely manner, and if possible prior to the date of the auditor’s report.</p> <p>² Paragraph .23 of AU-C section 210, <i>Terms of Engagement</i>.</p> <p>A23. When other information is made available to users only via the entity’s website, the version of the other information obtained from the entity, rather than directly from the entity’s website, is the relevant document on which the auditor would perform procedures in accordance with this proposed SAS. The auditor has no responsibility in accordance with this proposed SAS to search for other information, including other information that may be on the entity’s website, nor to perform any procedures to confirm that other information is appropriately displayed on the</p> |

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| <p>c. When some or all of the documents determined in (a) will not be available until after the date of the auditor’s report on the financial statements, request management to provide a written representation that the final version of the documents will be provided to the auditor when available, and prior to the document’s issuance by the entity, such that the auditor can complete the procedures required by this proposed SAS. (Ref: par. A25–A26)</p> | <p>entity’s website or otherwise has been appropriately transmitted or displayed electronically.</p> <p>A24. The auditor is not precluded from dating or issuing the auditor’s report if the auditor has not obtained some or all of the other information.</p> <p>A25. When the other information is obtained after the date of the auditor’s report, the auditor is not required to update the procedures performed in accordance with paragraphs .09–.11 of AU-C section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>.</p> <p>A26. AU-C section 580, <i>Written Representations</i>, establishes requirements and provides guidance on the use of written representations. The written representation regarding other information that will be available only after the date of the auditor’s report is intended to support the auditor’s ability to complete the procedures required by this proposed SAS with respect to such information. In addition, the auditor may find it useful to request other written representations, such as the following:</p> <ul style="list-style-type: none"> • That management has informed the auditor of all the documents that it expects to issue that may be other information |

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| <p>14. If the auditor becomes aware that the entity did not provide the auditor with the final version of documents determined in accordance with paragraph 13a to be part of the annual report prior to the issuance of those documents to third parties, the auditor should take appropriate action. (Ref: par. A27)</p> | <ul style="list-style-type: none"> • That the financial statements and any other information obtained by the auditor prior to the date of the auditor’s report are consistent with one another, and the other information does not contain any material misstatements • With regard to other information that has not been obtained by the auditor prior to the date of the auditor’s report, that management intends to prepare and issue such other information and the expected timing of such issuance <p>A27. In accordance with paragraph 14, appropriate actions that the auditor may take include these:</p> <ul style="list-style-type: none"> • Obtaining those documents from management and performing the procedures required by this proposed SAS as soon as practicable • Communicating the matter to those charged with governance, if applicable • Considering the need to obtain legal advice |
| <p>Reading and Considering the Other Information</p> | <p>Reading and Considering the Other Information (Ref: par. 15)</p> |

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| <p>15. The auditor should read the other information and do the following: (Ref: par. A28–A29)</p> | <p>A28. Paragraph .17 of AU-C section 200 requires the auditor to plan and perform the audit with professional skepticism. Maintaining professional skepticism when reading and considering the other information includes, for example, recognizing that management may be overly optimistic about the success of its plans and being alert to information that may be inconsistent with the financial statements or the auditor’s knowledge obtained in the audit.</p> <p>A29. In accordance with AU-C section 220,³ the engagement partner is required to take responsibility for the direction, supervision, and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this proposed SAS, factors that may be considered when determining the appropriate engagement team members to address the requirements of paragraphs 15–16 include these:</p> <ul style="list-style-type: none"> • The relative experience of engagement team members • Whether the engagement team members have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge • The degree of judgment involved in addressing the requirements of paragraphs 15–16; for example, performing procedures to |

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| <p>a. Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor should, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about the amounts or other items in the financial</p> | <p>evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members</p> <ul style="list-style-type: none"> • Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component <p>³ Paragraph .17a of AU-C section 220, <i>Quality Control for an Engagement Performed in Accordance With Generally Accepted Auditing Standards</i></p> <p><i>Considering Whether There is a Material Inconsistency between the Other Information and the Financial Statements (Ref: par. 15a)</i></p> <p>A30. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail about the amounts or other items in the financial statements. Examples of such amounts or other items may include the following:</p> <ul style="list-style-type: none"> • Tables, charts, or graphs containing extracts of the financial statements • A disclosure providing greater detail about a balance or account shown in the financial statements, such as “Revenue for 20X1 |

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| <p>statements) with such amounts or other items in the financial statements. (Ref: par. A30–A34)</p> | <p>was XXX million from product X and YYY million from product Y”</p> <ul style="list-style-type: none"> • Descriptions of the financial results, such as “Total research and development expense was XXX in 20X1” <p>A31. In evaluating the consistency of selected amounts or other items in the other information with the financial statements, the auditor is not required to compare all amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about the amounts or other items in the financial statements, with such amounts or other items in the financial statements.</p> <p>A32. Selecting the amounts or other items to compare is a matter of professional judgment. Factors relevant to this judgment include the following:</p> <ul style="list-style-type: none"> • The significance of the amount or other item in the context in which it is presented, which may affect the importance that users would attach to the amount or other item (for example, a key ratio or amount) |

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| | <ul style="list-style-type: none"> • If quantitative, the relative size of the amount compared with accounts or items in the financial statements or the other information to which they relate • The sensitivity of the particular amount or other item in the other information, for example, share-based payments for senior management <p>A33. Determining the nature and extent of procedures to address the requirement in paragraph 15a is a matter of professional judgment, recognizing that the auditor’s responsibilities under this proposed SAS do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information. Examples of such procedures include the following:</p> <ul style="list-style-type: none"> • For information that is intended to be the same as information in the financial statements, comparing the information to the financial statements • For information intended to convey the same meaning as disclosures in the financial statements, comparing the words used and considering the significance of differences in wording used and whether such differences imply different meanings • Obtaining a reconciliation between an amount within the other information and the financial statements from management |

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| <p>b. Consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. (Ref: par. A35–A42)</p> | <ul style="list-style-type: none"> • Comparing items in the reconciliation to the financial statements and the other information • Checking whether the calculations within the reconciliation are arithmetically accurate <p>A34. Evaluating the consistency of selected amounts or other items in the other information with the financial statements includes, when relevant given the nature of the other information, the manner of their presentation compared to the financial statements.</p> <p><i>Considering Whether There Is a Material Inconsistency Between the Other Information and the Auditor’s Knowledge Obtained in the Audit</i> (Ref: par. 15b)</p> <p>A35. Other information may include amounts or items that are related to the auditor’s knowledge obtained in the audit (other than those in paragraph 15a). Examples of such amounts or items may include the following:</p> <ul style="list-style-type: none"> • A disclosure of the units produced, or a table summarizing such production by geographical region • A statement that “the company introduced product X and product Y during the year” |

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| | <ul style="list-style-type: none">• A summary of the locations of the entity’s major operations, such as “the entity’s major center of operation is in country X, and there are also operations in countries Y and Z” <p>A36. The auditor’s knowledge obtained in the audit includes the auditor’s understanding of the entity and its environment, including the entity’s internal control, obtained in accordance with AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>.⁴ AU-C section 315 sets out the auditor’s required understanding, which includes such matters as obtaining an understanding of the following:</p> <ul style="list-style-type: none">a. The relevant industry, regulatory, and other external factorsb. The nature of the entityc. The entity’s selection and application of accounting policiesd. The entity’s objectives and strategiese. The measurement and review of the entity’s financial performancef. The entity’s internal control <p>⁴ Paragraphs 12–13 of AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>.</p> |

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| | <p>A37. The auditor’s knowledge obtained in the audit may also include matters that are prospective in nature. Such matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management’s evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, <i>The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern</i>.</p> <p>A38. In the case of a group audit, though the group auditor is required to read the entirety of the other information if, in accordance with paragraph .24 of AU-C section 600, <i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i>, the group auditor decides to make reference to a component auditor in the auditor’s report on the group financial statements, the group auditor’s knowledge does not extend beyond that obtained by the group auditor during the audit of the group financial statements.</p> <p>A39. In considering whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit,</p> |

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| | <p>the auditor may focus on those matters in the other information that are of sufficient importance that a misstatement of the other information in relation to those matters could be material.</p> <p>A40. In relation to many matters in the other information, the auditor’s recollection of the audit evidence obtained and conclusions reached during the audit may be sufficient to enable the auditor to consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit. The more experienced and the more familiar with the key aspects of the audit the auditor is, the more likely it is that the auditor’s recollection of relevant matters will be sufficient. For example, the auditor may be able to consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit in light of the auditor’s recollection of discussions held with management or those charged with governance or findings from procedures carried out during the audit such as the reading of board minutes, without the need to take further action.</p> <p>A41. The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team or relevant component auditors (when the auditor assumes responsibility for the work of component auditors) is appropriate as a basis for</p> |

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| | <p>the auditor’s consideration of whether a material inconsistency exists. Examples are as follows:</p> <ul style="list-style-type: none">• When the other information describes the planned cessation of a major product line, although the auditor is aware of the planned cessation, the auditor may make inquiries of the relevant engagement team member who performed the audit procedures in this area to support the auditor’s consideration of whether the description is materially inconsistent with the auditor’s knowledge obtained during the audit.• When the other information describes important details of a lawsuit addressed in the audit, but the auditor cannot recall them adequately, it may be necessary to refer to the audit documentation where such details are summarized to support the auditor’s recollection. <p>A42. Whether, and if so the extent to which, the auditor refers to relevant audit documentation or makes inquiries of relevant members of the engagement team or relevant component auditors is a matter of professional judgment. However, it may not be necessary for the auditor to refer to relevant audit documentation or to make inquiries of relevant members of the engagement team or relevant component auditors about any matter included in the other information. This may be the case, for</p> |

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| | <p>example, when the group auditor decides to make reference to a component auditor in the auditor’s report in accordance with paragraph .24 of AU-C section 600 and the group auditor has obtained sufficient knowledge in connection with the group audit about matters in the other information relating to a significant component.</p> |
| <p>16. While reading the other information in accordance with paragraph 15, the auditor should remain alert for indications that the other information not related to the financial statements or the auditor’s knowledge obtained in the audit appears to be materially misstated. (Ref: par. A43–A44)</p> | <p><i>Remaining Alert for Other Indications That the Other Information Appears to Be Materially Misstated</i> (Ref: par. 16)</p> <p>A43. Other information may include discussion of matters that are not related to the financial statements and may also extend beyond the auditor’s knowledge obtained in the audit. For example, the other information may include statements about the entity’s greenhouse gas emissions.</p> <p>A44. Remaining alert for other indications that the other information appears to be materially misstated could potentially result in the auditor identifying such matters as the following:</p> <ul style="list-style-type: none"> • Differences between the other information and the general knowledge, apart from the knowledge obtained in the audit, of the engagement team member reading the other information that |

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| | <p>lead the auditor to believe that the other information appears to be materially misstated</p> <ul style="list-style-type: none"> • An internal inconsistency in the other information that leads the auditor to believe that the other information appears to be materially misstated |
| <p>Responding When a Material Inconsistency Appears to Exist or Other Information Appears to be Materially Misstated</p> | <p>Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated (Ref: par. 17)</p> |
| <p>17. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor should discuss the matter with management and, if necessary, perform other procedures to conclude the following: (Ref: par. A45–A49)</p> <ul style="list-style-type: none"> a. Whether a material misstatement of the other information exists b. Whether a material misstatement of the financial statements exists c. Whether the auditor’s understanding of the entity and its environment needs to be updated | <p>A45. The auditor’s discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management’s statements in the other information. Based on management’s further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment.</p> <p>A46. Conversely, the discussion with management may provide further information that supports the auditor’s conclusion that a material misstatement of the other information exists.</p> |

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| | <p>A47. It may be more difficult for the auditor to challenge management on matters of judgment than on those of a more factual nature. However, there may be circumstances where the auditor concludes that the other information contains a statement that is not consistent with the financial statements or the auditor’s knowledge obtained in the audit. These circumstances may raise doubt about the other information, the financial statements, or the auditor’s knowledge obtained in the audit.</p> <p>A48. Because there is a wide range of possible material misstatements of the other information, the nature and extent of other procedures the auditor may perform to conclude whether a material misstatement of the other information exists are matters of the auditor’s professional judgment in the circumstances.</p> <p>A49. When a matter is unrelated to the financial statements or the auditor’s knowledge obtained in the audit, the auditor may not be able to fully assess management’s responses to the auditor’s inquiries. Nevertheless, based on management’s further information or explanations, or following changes made by management to the other information, the auditor may be satisfied that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated. When the auditor is unable to conclude that a material inconsistency no longer appears to exist or that the other information no longer</p> |

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| | <p>appears to be materially misstated, the auditor may request management to consult with a qualified third party (for example, a management’s expert or legal counsel). In certain cases, after considering the responses from management’s consultation, the auditor may not be able to conclude whether a material misstatement of the other information exists. Actions the auditor may then take include one or more of the following:</p> <ul style="list-style-type: none"> • Obtaining advice from the auditor’s legal counsel • Considering the implications for the auditor’s report, for example, whether to describe the circumstances when there is a limitation imposed by management • Withdrawing from the audit, where withdrawal is possible under applicable law or regulation |
| Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists | Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists |
| <p>18. If the auditor concludes that a material misstatement of the other information exists, the auditor should request management to correct the other information:</p> | |

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| <p><i>a.</i> If management agrees to make the correction, the auditor should determine that the correction has been made.</p> <p><i>b.</i> If management refuses to make the correction, the auditor should communicate the matter with those charged with governance and request that the correction be made.</p> | |
| <p>19. If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor’s report, and the other information is not corrected after communicating with those charged with governance, the auditor should take appropriate action, including the following: (Ref: par. A50)</p> | <p><i>Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained Prior to the Date of the Auditor’s Report</i> (Ref: par. 19)</p> <p>A50. The actions the auditor takes if the other information is not corrected after communicating with those charged with governance are a matter of the auditor’s professional judgment. The auditor may consider whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation, or other professional standards to communicate the matter to a regulator or relevant professional body.</p> |

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| <p><i>a.</i> Consider the implications for the auditor’s report and communicate with those charged with governance about how the auditor plans to address the material misstatement in the auditor’s report. (see paragraph 23<i>ei</i>); (Ref: par. A51)</p> <p><i>b.</i> Withhold the auditor's report. (Ref: par. A53)</p> <p><i>c.</i> Withdraw from the engagement if withdrawal is possible under applicable law or regulation. (Ref: par. A52–A53)</p> | <p>Reporting Implications (Ref: par. 19<i>a</i>)</p> <p>A51. In rare circumstances, a disclaimer of opinion on the financial statements may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.</p> <p>Withdrawal From the Engagement (Ref: par. 19<i>c</i>)</p> <p>A52. Withdrawal from the engagement, if withdrawal is possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit.</p> <p><i>Considerations Specific to Governmental Entities</i> (Ref: par. 19<i>b–c</i>)</p> <p>A53 In audits of governmental entities, withdrawal from the engagement or withholding the auditor's report may not be possible under law or regulation. In such cases, the auditor may issue a report or written</p> |

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| | communication to those charged with governance and the appropriate statutory body, if applicable, giving details of the inconsistency. |
| <p>20. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor’s report, the auditor should do the following:</p> <p style="padding-left: 40px;"><i>a.</i> If the other information is corrected, perform the procedures necessary in the circumstances. (Ref: par. A54)</p> <p style="padding-left: 40px;"><i>b.</i> If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor’s legal rights and obligations to seek to have the uncorrected material misstatement appropriately brought to the attention of anyone in receipt of the financial statements and the auditor’s report. (Ref: par. A55–A56)</p> | <p><i>Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained After the Date of the Auditor’s Report</i> (Ref: par. 20)</p> <p>A54. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor’s report, and such a material misstatement has been corrected, the auditor’s procedures necessary in the circumstances include determining that the correction has been made (in accordance with paragraph 18<i>a</i>) and may include reviewing the steps taken by management to communicate with those in receipt of the other information, if previously issued, to inform them of the revision.</p> <p>A55. If those charged with governance do not agree to revise the other information, taking appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of anyone in receipt of the financial statements and the auditor’s report requires the exercise of professional judgment, and may be affected by relevant law or regu-</p> |

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| | <p>lation in the jurisdiction. Accordingly, the auditor may consider it appropriate to seek legal advice about the auditor’s legal rights and obligations.</p> <p>A56. When a material misstatement of the other information remains uncorrected, appropriate actions that the auditor may take to seek to have the uncorrected material misstatement appropriately brought to the attention of anyone in receipt of the financial statements and the auditor’s report, when permitted by law or regulation, include, for example, the following:</p> <ul style="list-style-type: none">• Providing a new or amended auditor’s report to management including a modified section in accordance with paragraph 23, and requesting management to provide this new or amended auditor’s report to anyone in receipt of the financial statements and the auditor’s report. In doing so, the auditor may need to consider the effect, if any, on the date of the new or amended auditor’s report, in view of the requirements of GAAS or applicable law or regulation. The auditor may also review the steps taken by management to provide the new or amended auditor’s report to such users. |

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| | <ul style="list-style-type: none"> • Bringing the material misstatement of the other information to the attention of known users of the financial statements and the auditor’s report. • Communicating with a regulator or relevant professional body about the uncorrected material misstatement. • Considering the implications for engagement continuance (see also paragraph A52). |
| Responding When a Material Misstatement in the Financial Statements Exists or the Auditor’s Understanding of the Entity and Its Environment Needs to Be Updated | Responding When a Material Misstatement in the Financial Statements Exists or the Auditor’s Understanding of the Entity and Its Environment Needs to Be Updated (Ref: par. 21) |
| <p>21. If, as a result of performing the procedures in paragraphs 15–17, the auditor concludes that a material misstatement in the financial statements exists or the auditor’s understanding of the entity and its environment needs to be updated, the auditor should respond appropriately in accordance with the other SASs. (Ref: par. A57)</p> | <p>A57. In reading the other information, the auditor may become aware of new information that has implications for the following:</p> <ul style="list-style-type: none"> • The auditor’s understanding of the entity and its environment, which may indicate the need to revise the auditor’s risk assessment.⁵ • The auditor’s responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.⁶ • The auditor’s responsibilities relating to subsequent events.⁷ |

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| | <p>⁵ Paragraphs .11, .31, and .A1 of AU-C section 315.</p> <p>⁶ AU-C section 450, <i>Evaluation of Misstatements Identified During the Audit</i>.</p> <p>⁷ Paragraphs .10 and .14 of AU-C section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>.</p> |
| Reporting | Reporting (Ref: par. 23–24) |
| <p>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 some or all of the other information.</p> | |
| <p>23. When the auditor’s report is required to include an other information section in accordance with paragraph 22, the section should include the following: (Ref: par. A58)</p> | <p>A58. Illustrative examples of the “Other Information” section of the auditor's report are included in the appendix.</p> |

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| <ul style="list-style-type: none"> <i>a.</i> A statement that management is responsible for the other information <i>b.</i> An identification of other information, if any, obtained by the auditor prior to the date of the auditor’s report (Ref: par. A59) <i>c.</i> A statement that the auditor’s opinion does not cover the other information and that the auditor does not express an opinion or any form of assurance on the other information <i>d.</i> A description of the auditor’s responsibilities relating to reading, considering, and reporting on other information as required by this proposed SAS <i>e.</i> Either <ul style="list-style-type: none"> <i>i.</i> a statement that the auditor has nothing to report or <i>ii.</i> if the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information | <p>A59. Though not required, the auditor may consider that the identification in the auditor’s report of other information that the auditor expects to obtain after the date of the auditor’s report would be appropriate in order to provide additional transparency about the other information that is subject to the auditor’s responsibilities under this proposed SAS. The auditor may consider it appropriate to do so, for example, when management can represent to the auditor that such other information will be issued after the date of the auditor’s report.</p> |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|--|--|
| <p>24. When the auditor expresses a qualified or adverse opinion in accordance with AU-C section 705, <i>Modifications to the Opinion in the Independent Auditor’s Report</i>, the auditor should consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 23e. (Ref: par. A60–A64)</p> | <p><i>Reporting Implications When the Auditor’s Opinion on the Financial Statements Is Qualified or Adverse</i> (Ref: par. 24)</p> <p>A60. A qualified or adverse auditor’s opinion on the financial statements may not have an impact on the statement required by paragraph 23e if the matter in respect of which the auditor’s opinion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. For example, a qualified opinion on the financial statements because of nondisclosure of directors’ remuneration as required by the applicable financial reporting framework may have no implications for the reporting required under this proposed SAS. In other circumstances, there may be implications for such reporting as described in paragraphs A60–A62.</p> <p>Qualified Opinion Due to a Material Misstatement in the Financial Statements</p> <p>A61. In circumstances in which the auditor’s opinion is qualified, consideration may be given to whether the other information is also materially misstated for the same matter as, or a matter related to, the matter giving rise to the qualified opinion on the financial statements.</p> |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|--|--|
| | <p>Qualified Opinion Due to Limitation of Scope</p> <p>A62. When there is a limitation of scope with respect to a material item in the financial statements, the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these circumstances, the auditor may be unable to conclude whether or not the amounts or other items in the other information related to this matter result in a material misstatement of the other information. Accordingly, the auditor may need to modify the statement required by paragraph 23e to refer to the auditor’s inability to consider management’s description of the matter in the other information in respect of which the auditor’s opinion on the financial statements has been qualified as explained in the basis for qualified opinion paragraph. The auditor is nevertheless required to report any other uncorrected material misstatements of the other information that have been identified.</p> <p>Adverse Opinion</p> <p>A63. An adverse opinion on the financial statements relating to a specific matter or matters described in the basis for adverse opinion paragraph does not justify the omission of reporting of material misstatements of the other information that the auditor has identified in the auditor’s report in accordance with paragraph 23eii. When an adverse opinion has</p> |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|--|---|
| | <p>been expressed on the financial statements, the auditor may need to appropriately modify the statement required by paragraph 23e, for example, to indicate that amounts or items in the other information are materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse opinion on the financial statements.</p> <p>Disclaimer of Opinion</p> <p>A64. When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information, may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by proposed revised AU-C section 705, the auditor’s report does not include a section addressing the reporting requirements under this proposed SAS.</p> |
| Documentation | |
| <p>25. In addressing the requirements of paragraphs .08–.11 of AU-C section 230, <i>Audit Documentation</i>, as those requirements apply to this proposed SAS, the auditor should include the following in the audit documentation:</p> | |

| Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs | Application and Other Explanatory Material |
|--|---|
| <p><i>a.</i> The procedures performed under this proposed SAS</p> <p><i>b.</i> The final version of the other information on which the auditor has performed the work required under this proposed SAS</p> | |

A65.

Appendix

Illustrations of Other Information Sections to Be Included in Auditor’s Reports Relating to Other Information Included in the Annual Report

- Illustration 1: The auditor has not identified a material misstatement of the other information.
- Illustration 2: The auditor has concluded that a material misstatement of the other information exists.
- Illustration 3: A limitation of scope with respect to a material item in the consolidated financial statements also affects the other information.
- Illustration 4: The adverse opinion on the consolidated financial statements also affects the other information.

Illustration 1: The Auditor Has Not Identified a Material Misstatement of the Other Information.

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],¹ but does 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.

Illustration 2: The auditor Has Concluded That a Material Misstatement of the Other Information Exists.

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],² but does 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.

¹ A more specific description of the other information, such as “the management report and chairman’s statement,” may be used to identify the other information.

² A more specific description of the other information, such as “the management report and chairman’s statement,” may be used to identify the other information.

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. As described below, we have concluded that such a material misstatement of the other information exists.

[Description of material misstatement of the other information]

Illustration 3: A Limitation of Scope With Respect to a Material Item in the Consolidated Financial Statements Also Affects the Other Information

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],³ but does 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. As described in the Basis for Qualified Opinion paragraph, we were unable to obtain sufficient appropriate evidence about the carrying amount of

³ A more specific description of the other information, such as “the management report and chairman’s statement,” may be used to identify the other information.

ABC Company’s investment in XYZ Company as of December 31, 20X1 and ABC Company’s share of XYZ Company’s net income for the year. Accordingly, we are unable to conclude whether the other information is materially misstated with respect to this matter.

Illustration 4: The Adverse Opinion on the Consolidated Financial Statements Also Affects the Other Information.

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],⁴ but does 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. As described in the Basis for Adverse Opinion paragraph, ABC Company should have consolidated XYZ Company. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the X report affected by the failure to consolidate XYZ Company.

⁴ A more specific description of the other information, such as “the management report and chairman’s statement,” may be used to identify the other information.