



Agenda Item 5

Other Information

Objective of Agenda Item

To discuss the Task Force's recommendations pursuant to the direction provided by the ASB at its meeting in October with respect to the reporting and performance requirements within proposed Statement on Auditing Standards, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*. Pursuant to the ASB's directive, a revised draft standard is not presented.

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 currently consists of:

Elizabeth S. Gantnier – Task Force Chair – Former ASB member
Jan Herringer – ASB member
Kristen Kociolek – ASB 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
Dan Wernke – TIC member

Mike Glynn serves as the staff liaison to the Task Force and Rich Miller (ASB member and member of the Auditor Reporting Task Force) serves as an observer.

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.

Other Information
Discussion Memorandum
ASB Meeting, October 15-17, 2018

The exposure draft was issued on November 28, 2017 and comments were requested by May 15, 2018. 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>

At its meeting in July 2018, the ASB discussed the comments received on the public exposure of the proposed statement. Specifically, the ASB focused on significant concerns that 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 put forth three possible paths forward:

- 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; 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.

The ASB directed that the proposed standard retain a requirement that the auditor report when other information is included in an annual report. However, the ASB directed that the Task Force consider retaining the performance requirements from extant AU-C section 720 but place such requirements in the ISA 720 (Revised) performance model – including the concept of “misstatement” of the other information.

The Task Force proposes the following with respect to development of the revised AU-C section 720. In developing the proposals, the Task Force:

- Enhanced the requirements from extant AU-C section 720 by requiring transparent reporting when all of the other information is obtained prior to the date of the auditor's report on the financial statements.
- Because there is no framework to evaluate other information for non-issuers in the United States, the concept of omitted or obscured information is not included.

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. The review is expected to take several months, at a minimum.

Other Information
Discussion Memorandum
ASB Meeting, October 15-17, 2018

- Complied with the “spirit” of ISA 720 (Revised) while developing a standard that is appropriate for the US reporting environment and users of the auditor’s report, financial statements, and annual report.

Based on the ASB feedback on the proposed way forward, the Task Force plans to present a draft standard at a future meeting.

Reporting

The Task Force proposes that the revised standard include a requirement for the auditor to include a separate “Other Information” section in the auditor’s report on the audited financial statements only when **all** of the other information is received as of the date of the auditor’s report on the financial statements. Other information would be defined as information included in the entity’s annual report consistent with extant AU-C section 720 and ISA 720 (Revised).

Further, as practitioners are familiar with the language used in the no assurance compilation report, the Task Force proposes that the report language be modified so as to be closer to the compilation report language (a compilation, like OI, is primarily a read and report service). The following are the proposed revisions to the reporting requirements contained in the exposure draft of the proposed standard:

- 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.
- 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)
 - a. A statement that management is responsible for the other information
 - b. An identification of other information, ~~if any, obtained by the auditor prior to the date of the auditor’s report~~ (Ref: par. A59)
 - ~~c. 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~~
 - d. A description of the auditor’s responsibilities relating to reading, considering, and reporting on other information as required by this proposed SAS*
 - d. A statement that the auditor did not audit or review the other information nor was the auditor required to perform any procedures to verify the accuracy or completeness of the information provided by management*

Other Information
Discussion Memorandum
ASB Meeting, October 15-17, 2018

e. A statement that the auditor's opinion does not cover the other information and that the auditor does not express an opinion, a conclusion, nor provide any assurance on the other information

~~g~~f. ~~Either~~

~~i. a statement that the auditor has nothing to report or~~

~~ii. 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~~

The following is an illustration of the Other Information section to be included in the auditor's report when the auditor has received all of the other information and has not identified a material misstatement (defined as an inconsistency or material misstatement of fact) of the other information (marked to show the edits from the corresponding illustration in the exposure draft).

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.~~ 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~~ ***include a material misstatement of fact.*** 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. We did not audit or review the other information nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Our opinion on the financial statements does not cover the other information and we do not express an opinion, a conclusion, nor provide or any form of assurance on it.~~

The Task Force proposes that no additional language be included in either the management or auditor responsibility sections of the auditor's report.

Action Requested of ASB

The ASB is asked to consider whether it agrees with the Task Force's proposed revised reporting requirements, or if not, what alternative recommendations should the task force consider?

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.

Performance Requirements

At its meeting in July 2018, the ASB directed that the Task Force revise the draft proposed revised AU-C section 720 such that it retains the performance requirements from AU-C section 720 but utilizes the ISA 720 (Revised) model – including consideration of *misstatement of the other information*.

Definition of *Misstatement of the Other Information*

The exposure draft of the proposed revised AU-C section 720 defined *misstatement of the other information* as follows. The definition is consistent with the defined term in ISA 720 (Revised):

Misstatement of the other information. 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).

At its meeting in July 2018, the ASB noted that the definition could be revised so that a *misstatement of the other information* was either (a) an *inconsistency* or (b) a *misstatement of fact*. The Task Force proposes that the definition be revised to incorporate the defined terms *inconsistency* and *misstatement of fact* from extant AU-C section 720 as follows:

Misstatement of the other information. A misstatement of the other information *may be either an inconsistency or a misstatement of fact. An inconsistency exists when other information 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. A misstatement of fact exists when other information that is unrelated to matters appearing in the audited financial statements is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the annual report.* ~~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).~~

To address the issue of omitted or obscured information, the Task Force proposes to revise an application paragraph that is associated with the definition of *misstatement of the other information* as follows:

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. *Omitted information or obscured information does not refer to information that is required to be presented but*

Other Information
Discussion Memorandum
ASB Meeting, October 15-17, 2018

instead to incomplete information that, without disclosure, results in the other information being misleading.

Action Requested of ASB

The ASB is asked to consider the proposed revised definition of *misstatement of the other information* and whether it is more operational in the American audit environment than the definition in the exposure draft. The ASB is also asked to consider whether the revised application guidance provides appropriate and adequate guidance with respect to omitted or obscured information

Requirement to Read the Other Information

Paragraph .06 of extant AR-C section 90 states:

.06 The auditor should read the other information of which the auditor is aware in order to identify material inconsistencies, if any, with the audited financial statements.

In an effort to incorporate the concept of an “intelligent read” from ISA 720 (Revised), the exposure draft included the following (references to application paragraphs are not included):

15. The auditor should read the other information and do the following:

- 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 statements) with such amounts or other items in the financial statements.
- 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.

At its meeting in July 2018, certain ASB members expressed concern that the proposed requirement in subparagraph 15b for the auditor to consider the other information against *the auditor’s knowledge obtained in the audit* would widen the expectation gap. In adhering to the ASB’s directive to retain the performance requirements from extant AU-C section 720, the Task Force proposes revise paragraph 15 as follows:

15. The auditor should read the other information and ~~do the following:~~

- ~~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

Other Information
Discussion Memorandum
ASB Meeting, October 15-17, 2018

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.

- ~~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.~~

The Task Force also proposes to remove any reference to the auditor considering other information against *the auditor's knowledge obtained in the audit*. Thus, the construct in extant AU-C section 720 whereby the other information is compared to the audited financial statements only is retained.

Action Requested of ASB

The ASB is asked to consider whether it agrees with the Task Force's determination to delete the requirement in subparagraph 15b as well as removing any requirement for the auditor to consider other information against *the auditor's knowledge obtained in the audit*.

Agenda Items Presented:

None