



## AUDITING STANDARDS BOARD (ASB)

### Meeting Highlights

May 20-23, 2019

Nashville, TN

#### MEETING ATTENDANCE

##### ASB Members

Mike Santay, *Chair*  
Monique Booker  
Jay Brodish  
Dora Burzenski (by phone on 5/23)  
Joseph Cascio  
Larry Gill  
Audrey Gramling  
Gaylen Hansen  
Tracy Harding  
Jan Herring  
Kristen Kociolek  
Ilene Kassman (by phone on 5/23)  
Sara Lord  
Alan Long  
Rich Miller  
Dan Montgomery  
Marcia Marien  
Jere Shawver  
Chad Singletary (by phone on 5/23)

##### Guests

Denny Ard, *Dixon Hughes Goodman LLP (5/21-5/22)*  
Elizabeth Gantnier, *Dixon Hughes Goodman LLP (5/21-5/23)*  
Cathy Schweigel, *Larson Allen (5/21-5/22)*  
Jim Kaiser, *PCAOB (5/21 only)*

##### AICPA Staff

Bob Dohrer, Chief Auditor, *Professional Standards & Services*  
Linda Delahanty, Senior Technical Manager, *A&A Standards*  
Mike Glynn, Senior Technical Manager, *A&A Standards*  
Ahava Goldman, Associate Director, *A&A Standards*  
Hiram Hasty, Associate Director, *A&A Standards*  
Kristy Illuzzi, *CPEA*  
Andy Mrakovcic, Technical Manager, *A&A Standards (by phone)*  
Teighlor March, *Assistant General Counsel*

##### Observers

Peter Alfele, *Clifton Larson Allen, LLP*  
Sally Ann Bailey, *Deloitte & Touche LLP*  
Patricia Bottomly, *BDO*  
Jim Dalkin, *GAO (5/21 only)*  
Kathy Healy, *PwC LLP (by phone)*  
April King, *RSM*  
Nick Kostoff, *EY LLP*  
Jessica Luttrell, *NASBA*  
Cathy Rowe, *Wolters Kluwer*  
Jeffrey Schaberg, *Deloitte & Touche LLP*  
Laura Schuetze, *Grant Thornton*  
Tania Sergott, *Deloitte & Touche LLP*  
Mark Wells, *Thomson Reuters/PPC*

## Chair and Chief Auditor Report

Mr. Santay thanked NASBA for hosting us in their lovely facility. He provided an update on the activities of the AITF, a liaison meeting with the PCAOB and GAO, and an IAASB National Standard-Setters meeting.

Mr. Dohrer provided an update of IAASB activities.

The highlights of the January and March 2019 ASB meetings were approved unanimously.

Mr. Santay thanked the outgoing members of the ASB—Ilene Kassman, Rich Miller, Dan Montgomery, Jere Shawver and Chad Singletary — for their years of service.

As part of the ASB’s ongoing liaisons with other professional bodies, Jim Kaiser, PCAOB board member, joined the meeting to enhance the communication and interaction between the ASB and PCAOB. Mr. Kaiser discussed various aspects of the PCAOB’s new strategy, including stakeholder engagement, technology, and the use of guidance to help enhance their standard-setting efforts.

### 1. Materiality

The ASB discussed a proposed SAS and a proposed SSAE, both titled *Amendments to the Description of the Concept of Materiality*, and voted unanimously to issue both for exposure. The proposed standards contain amendments intended to eliminate inconsistencies between the description of materiality in AICPA *Professional Standards* and the description of materiality used by the U.S. judicial system and other U.S. standard setters and regulators.

Ms. Herrer, chair of the Materiality Task Force, led the discussion of the proposed standards. Regarding the issues brought to the ASB:

- The ASB agreed with the proposed effective date.
- The ASB expressed the belief that the proposed description of materiality and related conforming amendments are substantially consistent with current firm practices with respect to determining and applying materiality in an audit or attest engagement, and therefore the proposed amendments would not result in significant impact on the extent of work performed in those engagements. The ASB requested that respondents be asked to comment on this specific issue.

The ASB made no substantive changes to the draft presented at the meeting. The exposure draft is expected to be issued by mid-June with a 60-day comment period.

### 2. Audit Evidence

The ASB discussed a draft of the proposed SAS *Audit Evidence*, which would supersede AU-C section 500, *Audit Evidence*. After discussion, the ASB voted to ballot the proposed SAS as an exposure draft with a 90-day comment period. Eighteen members approved the issuance of the proposed SAS. Ms. Burzenski dissented. The reasons for her dissent are presented in the appendix to these highlights.

Mr. Dohrer led the discussion. Significant comments or observations by the ASB members were as follows:

- The ASB members decided to remove a statement in the introduction section of the proposed SAS that indicated that no incremental documentation requirements beyond those requirements in other auditing standards were being created by the proposed SAS. Rather, the ASB decided to include a specific question in the Explanatory Memorandum to the exposure draft asking whether respondents believed incremental documentation requirements would result from applying the requirements of the proposed SAS.
- If approved, the proposed SAS would be effective for audits of financial statements for periods beginning on or after June 15, 2021
- The objective of the proposed SAS was amended to make it more succinct.
- Certain amendments to the definitions were made, most notably to the definition of “audit evidence.”

The ASB discussed what constitutes an external confirmation, and whether an oral confirmation can be as reliable as a written confirmation. The ASB concluded that an oral confirmation can be as reliable as a written confirmation provided certain conditions are met. Accordingly, the ASB agreed to amend AU-C section 505 to eliminate the requirement that a confirmation be written, and add application material addressing circumstances when a written confirmation may be more appropriate than an oral confirmation. The ASB decided that this proposed amendment should be highlighted as an issue in the Explanatory Memorandum of the Exposure Draft.

### **3. Other Information**

The ASB discussed a draft revised SAS, *Other Information in Documents Containing Audited Financial Statements* and voted to ballot to issue the draft as a final SAS.

After discussion of the draft standard led by Ms. Gantnier, Mr. Santay stated that all ASB member comments have been considered and there have been significant discussions on all significant matters with respect to the proposed SAS. In response to Mr. Santay’s inquiry, no ASB members stated that they felt that there were any significant concerns that had not been appropriately considered and deliberated.

Fifteen members voted to ballot the proposed SAS for issuance as a final standard and four members dissented. The dissenting members were Jay Brodish, Joseph Cascio, Larry Gill, and Ilene Kassman. Their reasons for dissenting are included in the appendix to these highlights.

The final SAS is expected to be issued as SAS 137 in mid-July 2019.

The ASB directed that the following edits be made to the draft SAS:

- Delete the last sentence of paragraph 4, which states “Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor’s report is prepared.”
- Revise paragraph 5 so that it states that other information may also include *nonfinancial information* as opposed to *other matters*.
- Revise paragraph 6 so that it states that 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.
- Revise the objective in paragraph .11 to include remaining alert for indications that
  - i. a material inconsistency exists between the other information and the auditor’s knowledge obtained in the audit or
  - ii. a material misstatement of fact exists or the other information is otherwise misleading
- Revise paragraph .A11 to include the following:

A material misstatement of fact may undermine the credibility of the annual report. Information that is otherwise misleading, including because it omits or obscures information necessary for a user to appropriately understand a matter disclosed in the other information, could result in a material misstatement of the other information.

- Reinstate the following application paragraphs which were reflected as being deleted in the draft presented to the ASB:

**AX.** 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 a material inconsistency exists between the other information and the auditor’s knowledge obtained in the audit. For example, the auditor may be able to consider whether a material inconsistency exists 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.

**AX.** 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 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.

- Revise paragraph .A39 as follows:

**A39.** The manner in which an auditor resolves a concern regarding whether other information is materially inconsistent with the auditor’s knowledge obtained in the audit, is a matter of professional judgment. The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team *or relevant component auditors* is appropriate ***as a basis for the auditor’s consideration whether a material misstatement exists***. 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.

- Revise the lead in to paragraph .A42 as follows:

**A42.** Remaining alert for indications that ~~the other information appears to be materially misstated~~ ***a material misstatement of fact exists or the other information is otherwise misleading*** could potentially result in the auditor identifying such matters as the following

- Delete references to other information that appears to be *otherwise* materially misstated.
- The reporting requirement should be revised as follows:

**24.** When, at the date of the auditor’s report, the auditor has obtained all of the other information, ***the composition of which was*** as—determined through discussions with management ***and for which the auditor obtained management’s written acknowledgement*** (pursuant to paragraph 13a), the auditor should include a separate section in the auditor’s report on the financial statements with the heading “Other Information,” or other appropriate heading. The other information section in the auditor’s report on the financial statements should include the following: (Ref: par. A55)

- a. A statement that management is responsible for the other information
- b. An identification of other information and a statement that the other information does not include the financial statements and the auditor’s report thereon
- c. ***A statement that the auditor’s opinion on the financial statements does not cover the other information.***
- d. ~~A description of the auditor’s responsibilities including~~ ***A statement that, in connection with the audit of the financial statements, the auditor is responsible to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or is otherwise materially misstated.***
  - ~~i. A statement that, in connection with the audit of the financial statements, the auditor’s responsibility is to read the other information and consider whether the other information is materially inconsistent with the financial statements; or otherwise appears to be materially misstated~~

- f. A statement that, *if, based on the limited procedures performed, the auditor has concluded that an uncorrected material misstatement of the other information exists, the auditor is required to describe the uncorrected material misstatement of the other information* ~~if, based on the work performed, the auditor concludes that there is a material misstatement of the other information, the auditor is required to report that fact.~~
- e. ~~A statement that the auditor's opinion does not cover the other information and that the auditor does not express an opinion or provide any assurance on the other information~~
- g. If the auditor ~~has concluded~~ that ~~there is~~ an uncorrected material misstatement of the other information *exists*, a statement that the auditor has concluded that *an uncorrected* material misstatement of the other information exists and a description of the *uncorrected* material misstatement of the other information
- In addition, revise the illustrations of the other information sections to be included in the auditor's reports relating to other information included in the annual report to so that the statement that "the auditor's opinion on the financial statements does not cover the other information and the auditor does not express an opinion or provide any assurance on the other information because the auditor's limited procedures do not provide the auditor with sufficient evidence to express an opinion or provide any assurance" is near the beginning of the section.

#### 4. Estimates

The ASB discussed issues and relevant indicative drafting related to proposed SAS *Auditing Accounting Estimates and Related Disclosures* (proposed Estimates SAS), which would supersede AU-C section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. A draft standard will be brought to the ASB at its July 2019 ASB meeting for voting to ballot as an exposure draft.

The ASB agreed to the following approach relating to developing the proposed Estimates SAS:

- The proposed Estimates SAS should converge with ISA 540 (Revised)
- The requirements and application material in ISA 540 (Revised) relating to risk assessment should be included in the proposed Estimates SAS rather than in AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. Further consideration for including this content in AU-C section 315 may be made as part of the ASB's risk assessment project.
- The requirements and application material relating to written representations should be retained in AU-C section 580, *Written Representations* and updated to align with the proposed Estimates SAS.
- Limited amendments to AU-C section 501, *Audit Evidence — Specific Considerations for Selected Items* should be proposed to address any conflicts with the proposed Estimates SAS. The ASB supported consideration of a future project to take a holistic approach to the auditing

guidance relating to investments when the valuations are based on the investee's financial results and for investments in derivative investments and securities measured or disclosed at fair value.

## 5. Attestation Standards

The ASB discussed issues related to a draft of a proposed Statement on Standards for Attestation Engagements *Revisions to Statement on Standards for Attestation Engagements No. 18*, Attestation Standards: Clarification and Recodification. This topic will be brought back to the ASB at its July 2019 meeting for continued discussion.

Ms. Schweigel and Mr. Ard led the discussion. The ASB requested that the following changes be made to the draft standard:

- Revise the use of the terms *subject matter* and *subject matter information* when those terms have not been used correctly throughout the revised attestation standards. For example, in AT-C section 105,
  - revise paragraph 2 to indicate that “in an agreed-upon procedures engagement, the practitioner provides users of information with the results of procedures applied to subject matter or subject matter information” because subject matter is the phenomenon that is measured or evaluated against criteria (for example future revenue and expenses) and subject matter information is the outcome of the measurement or evaluation of subject matter against criteria (for example, a written presentation such as a forecast) and a practitioner could apply procedures to information about future revenue and expenses as well as to a forecast”; make this same change to the definition of *agreed-upon procedures engagement* in paragraph 11
  - revise the definition of *examination engagement* and *review engagement* in paragraph 11 to indicate that the practitioner reports on *subject matter information* rather than *subject matter* because subject matter is the phenomenon that is measured or evaluated against criteria and subject matter information is the outcome of that measurement or evaluation, which the practitioner reports on.
- In paragraph A19 of AT-C 105, delete example *a* as an example of subject matter information because it relates to financial statements, and replace it with an example that is more relevant to an attestation engagement, such as a schedule of investment returns
- Replace the words “anything attached to it” with the words “any additional information included in a document containing the subject matter information and the practitioner’s report thereon” in paragraph 45b(ii)
- Add an application paragraph to AT-C section 105 indicating that when only the practitioner has measured or evaluated the subject matter against the criteria, the practitioner may apply the attestation standards by adapting and supplementing them as necessary in the circumstances, for example, by applying the requirements in the attestation standards to the procedures the practitioner performs in measuring or evaluating the subject matter against the criteria. Also, revise paragraph 3 to make it specific to examination and review engagements because an agreed-upon procedures engagement would not involve the measurement or evaluation of subject matter against criteria.

In AT-C section 205:

- In paragraph A10, in the list of examples of situations in which an assertion might be needed, do not include “guidance included in an AICPA guide” because it is not clear whether a guide has the authority to establish this requirement.
- In paragraph A11, replace the word “diminish” with the word “alter”
- In paragraph A119, replace the words, “the responsible party, or if different, the engaging party with the words “appropriate party”

In AT-C section 210:

- Make revisions consistent with those made to AT-C section 205 as appropriate
- Delete paragraph .10 regarding engagement letter requirements when an assertion is obtained or otherwise deemed necessary and incorporate in the requirement in the preceding paragraph
- Consider retaining extant requirement regarding analytical procedures that presupposes that the practitioner will design and perform analytical procedures and include application guidance for situations in which the performance of analytical procedures is not practical
- For the requirements to perform inquiries and to read other information and discuss potential material inconsistencies or material misstatements of fact, consider revising to inquiring of the *appropriate party* instead of the *responsible party*
- Revise the documentation requirements with respect to requested written representations that are not obtained to be consistent with those in AT-C section 205
- Delete illustrative practitioner’s review reports that are included in other publications such as AICPA Guides

In AT-C section 215:

- Revise references to engaging party *acknowledging* that the procedures performed are appropriate for the intended purpose of the engagement to the engaging party *agrees to and acknowledges*
- Delete paragraph .a3 as it is repetitive of paragraph .a2
- Pursuant to a comment received on the Exposure Draft, consider whether to retain requirements and guidance with respect to nonparticipant parties (adding specified parties) from extant in order to retain practitioner’s ability to perform a “traditional AUP.”
- With respect to paragraph .a7 which provides guidance regarding determining whether procedures can be designed, performed, and reported on in accordance with AT-C section 215, revise the first bullet as follows:

Are or will be subjective or require judgment to apply, ***including the extent to which an understanding of relevant documents or agreements (for example, provisions of a contract) may be needed***

- Revise paragraph .A11 as follows:
  - **.A11** Based on the practitioner’s understanding with the engaging party, the practitioner may consider it necessary to request a regulator to *agree to the procedures and* acknowledge that the procedures performed are appropriate for their intended purpose; ~~particularly in the case of an initial engagement, where law or regulation prescribes only the nature of the procedures to be performed, or where there may be uncertainty as to whether an agreed-upon procedures engagement is an acceptable service.~~
- Revise paragraph .A12 as follows:
  - **.A12** A contract may require an agreed-upon procedures engagement to be performed. Given the procedures are being performed to satisfy the obligations or expectations of the parties to the contract, unless the procedures, or a detailed description of the nature of the procedures, are included in the contract, ~~it may be necessary for~~ *the practitioner may decide to request* all parties to the contract to *agree to the procedures and* acknowledge that the procedures performed are appropriate for their purposes.
- With respect to the required elements of the engagement letter (paragraph .15), require simply that the engagement letter reference the expected form and content of the practitioner’s agreed-upon procedures report and delete the additional language regarding how the report may disclose the parties that acknowledged that the procedures are appropriate for their purposes
- Delete paragraph .19 which states that the practitioner should not perform procedures that are amended for the purpose of eliminating exceptions in testing as the issue is appropriately addressed in application guidance in paragraph .a44
- With respect to paragraph .a39 which provides examples of appropriately worded findings, the task force should consider adding an example that addresses the situation where an exception is noted and the responsible party revises the subject matter and the practitioner reperforms the procedure
- Also in paragraph .a39, delete references to representation of fact and replace with fact
- With respect to the reporting requirements in paragraph .35, delete the requirements regarding disclosing whether parties in addition to the engaging party acknowledged that the procedures are appropriate for their purposes as well as the statement that the practitioner makes no representation regarding the appropriateness of the procedures either for the purpose for which the report has been requested or for any other purpose
- Reinstate the application paragraph that reads:
  - **.AX** The practitioner is neither required to make, nor is precluded from making, an explicit statement that the practitioner makes no representation regarding the appropriateness of the procedures either for the purpose for which the practitioner’s report has been requested or for any other purpose.
- Delete “utilizing professional judgment” from the requirement in paragraph .36 regarding the practitioner considering whether to restrict the use of the practitioner’s agreed-upon procedures report

## 6. EBP Auditor Reporting

The ASB approved proposed changes to conform the final balloted Statement on Auditing Standards (SAS) *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, (“EBP SAS”) to SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*. Ms. Delahanty presented the materials, to which the ASB made no changes. The final EBP SAS is expected to be issued by mid-July.

## 7. Auditor Reporting—AU-C 800 Series

The ASB discussed issues related to revision of the AU-C 800 series of standards, which consists of AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, AU-C 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, and AU-C 810, *Engagements to Report on Summary Financial Information*. The revisions to the AU-C 800 series of standards are being made to reflect changes to the auditor’s report included in SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*. Revised drafts of the proposed revisions will be brought to the ASB at its July 2019 ASB meeting for voting to ballot for exposure.

Mr. Montgomery led the discussion of the three AU-C sections.

The following are other proposed revisions to AU-C 800 that the ASB has discussed at past meetings and decided not to proceed with at this time:

- Introducing the concept of a compliance framework in AU-C 800. A compliance framework requires only compliance with the framework. Whereas, a fair presentation framework requires compliance with the framework and also acknowledges that to achieve fair presentation, it may be necessary to (a) provide disclosures beyond those specifically required by the framework or (b) depart from a requirement of the framework.
- Eliminating the requirement for a dual opinion in an auditor’s report on regulatory basis financial statements intended for general use. (In a dual opinion, the auditor is required to express an opinion on whether the financial statements are presented fairly in accordance with GAAP and an opinion on whether the financial statements are prepared in accordance with the regulatory basis of accounting.)

### AU-C 800

The ASB directed that the following changes be made to the draft of AU-C 800:

- Delete the last sentence in paragraph 8 which states, “Reference to special purpose financial statement includes the related disclosures.” This sentence is not needed because SAS No. 134 revises the definition of financial statements in AU-C 200 to include disclosures.
- Consider deleting item “a” in paragraph 18, which contains requirements related to the wording of the auditor’s opinion. Item “a” was added to paragraph 18 to show the difference between the wording of a fair presentation opinion and a compliance opinion. The ASB decided to defer further consideration of including the concept of compliance frameworks in AU-C 800 and therefore (1) item “a” is no longer necessary and (2) the default wording in AU-C 700 is applicable.
- Paragraph 19 of AU-C 800 requires that the emphasis-of-matter paragraph in reports on financial statements prepared in accordance with a contractual basis of accounting state “as a result, the financial statements may not be suitable for another purpose.” The ASB suggested that this statement also be required in reports on special purpose financial statements prepared on an other basis of accounting.
- Add an application material paragraph that addresses the auditor’s responsibilities relating to other information, similar to paragraph A17 of ISA 720 (Revised) The Auditor’s Responsibilities Relating to Other Information.
- Delete the last sentence of paragraph A33 because it repeats what is included in paragraph 21.

#### AU-C 805

The ASB directed that the following changes be made to the draft of AU-C 805:

- In paragraph A14, delete the phrase “including the appropriate wording for special purpose financial statements prepared in accordance with a fair presentation or compliance framework, respectively” and consider deleting paragraph 12 because this material is relevant to compliance frameworks in ISA 805 (Revised) but is not relevant to AU-C 805, which only addresses fair presentation frameworks.

#### AU-C 810

The ASB recommended that the following changes be made to the draft of AU-C 810:

- Add the phrase “an uncorrected material misstatement of other information” to the list of matters in paragraph 18 of AU-C 810 that warrant description in the auditor’s report on summary financial statements that contain an unmodified opinion.
- In the report in Illustration 2 of the appendix of AU-C 800, consider replacing the language in the paragraph “The Audited Financial Statements and Our Report Thereon” with the language in the related paragraph in Illustration 3 of the appendix of ISA 810 (Revised). Mr. Montgomery noted that it seems inconsistent to express an unmodified opinion on the summary financial statements and then state in the report that the

summary financial statements are misstated. An ASB member noted that the wording in Illustration 3 of the appendix of ISA 810 (Revised) is more streamlined yet understandable.

## **APPENDIX – Dissents**

### **Agenda item 2 – Audit Evidence**

Dora Burzenski dissented to issuing the proposed SAS *Audit Evidence* for exposure. She provided the following statement as the reason for her dissent:

I strongly support the project objective of modernizing the auditing standards to reflect the changing nature of information and audit evidence and the manner in which it is obtained, tested and concluded on by the auditor. However, I am dissenting to the public exposure of the proposed amendments, as I do not believe the Board has presented compelling reasons to support the limited scope of the proposed changes at this time. The concept of audit evidence is fundamental to how the AU-Cs function as a suite of standards, and underpins the forming of conclusions, upon which an audit is based. To truly effect change in how we view and understand audit evidence would require changes to multiple standards, including risk assessment and audit execution standards, to undertake additional changes such as eliminating the classification of audit evidence between risk assessment procedures and further audit procedures. Without further outreach and a solution to addressing these fundamental issues, the proposed changes do not sufficiently warrant revisions to a standard that is so fundamental to performing an audit.

### **Agenda item 3 – Other Information**

Jay Brodish, Joseph Cascio, Larry Gill, and Ilene Kassman dissented to issuing proposed SAS *Other Information in Documents Containing Audited Financial Statements* as a final standard. Their reasons for dissenting are stated below:

#### ***Jay Brodish***

I do not support the issuance of AU-C section 720 as proposed due to pervasive concerns over whether the standard as drafted is capable of effective implementation in the US environment. The use of the broader term “material misstatement of the other information,” coupled with the language to be included in the auditor’s report, is likely to exacerbate the expectations gap that already exists in relation to the auditor’s work on other information. Similar concerns were raised in response to PCAOB proposals relating to other information, and my preference has always been to postpone making changes to GAAS to converge with the ISA until such time that the PCAOB considered it appropriate to move ahead in this area.

Specifically:

- I remain concerned that there is no framework against which the auditor can consider the other information (in particular, nonfinancial other information) to evaluate whether the other information is “otherwise misleading,” particularly in light of the auditor’s lack of subject-matter expertise regarding certain nonfinancial other information. The proposed SAS does not include sufficient guidance to assist the auditor in this regard, including to determine when a statement that may be considered “otherwise misleading” rises to the level of a “material misstatement of other information.”
- While I do not disagree the auditor can read and consider the other information through the lens of the auditor’s knowledge obtained in the audit, I do not believe this needs to be a separate requirement in the process as set out in paragraph 17(a) of the standard, but would be implicit in considering whether there are either (1) material inconsistencies between the other information and the financial statements, or (2) material misstatements of fact.
- I believe there is a critical inconsistency between the objectives and requirements of the standard and the description in the auditor’s report. I question whether users of auditor’s reports for private companies will appropriately understand the limited nature of the auditor’s procedures in accordance with the SAS, which is why my position from the beginning has been that any reporting requirement risks exacerbating the expectations gap that already exists. How the work is summarized in the auditor’s report is, in my view, inconsistent with the requirements of the SAS and risks giving more credibility to the other information than is warranted based on the auditor’s work.

I ask that the Board or Task Force reconsider the proposed language required to be included in the auditor’s report before issuing the final standard.

I suggest the following edits (marked from ballot draft), which in my view would at least correct the critical inconsistency with the requirements and which aligns more closely with the objectives of the SAS:

***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 annual report],<sup>1</sup> 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 thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, and to respond appropriately when we identify that such material inconsistency appears to exist, or when we become aware that the other information otherwise appears to be materially misstated. If, based on the work performed,

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<sup>1</sup> 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.

we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

***Ilene Kassman***

The stated goal for this project was to amend AU-C 720 to converge with ISA 720 (Revised). My vote to dissent to issuance of the final auditing standard is based on the Board's decision to only require reporting when all of the other information is available at the date of the auditor's report. A requirement that may be circumvented by delaying the availability of other information is flawed. I believe this approach significantly diverges from the intent of the IAASB to provide users with transparency about the auditor's role with other information. If the Board believes that communicating the auditor's responsibility is unnecessary for private entities in our jurisdiction and therefore is not requiring in all instances, I believe that the extant standard of voluntary reporting should have been retained.

***Lawrence Gill***

The proposed Statement requires the auditor to remain alert for other information that is misleading—not materially misleading, simply misleading. Given that there is generally no specific information that must be included in an annual report for nonpublic companies and given that omissions can be misleading under the proposed Statement, it becomes problematic for an auditor to determine what is misleading. A materiality qualifier, as used with other items in the proposed Statement would have helped the auditor to some extent here. A “misstatement of the other information” is defined to include information that is misleading and certain triggers with the proposed Statement are tied to a “material misstatement of the other information.” As a result, in these cases, one might conclude that the misleading information must also be material, but the matter is unnecessarily confused by the failure to qualify misleading with a materiality qualifier throughout the proposed Statement. Note that, even with a materiality qualifier, the absence of specifically required information in the annual report still presents challenges for the auditors in determining something omitted is misleading.

***Joseph Cascio***

**For the reasons described below, I dissent to issuance of the May 29, 2019 ballot draft of the proposed Statement on Auditing Standards, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, as a final 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

While I support the ASB's efforts to clarify the auditor's responsibilities with respect to other information in annual reports and to make the auditor's work effort more transparent by describing those responsibilities in the auditor's report, I believe the proposed SAS falls short of meeting these objectives. Transparency will not be significantly improved under the proposed SAS because draft annual reports typically are not made available to the auditor until after the financial statement audit is completed and the auditor's report is released. As a result, the auditor's report would not include the proposed separate section addressing other information. If the Board believes transparency is important, more could be done to require auditor reporting whenever the auditor's report on the financial statements is included in a company's annual report.

I also believe the required wording to be included in the auditor's report when the other information is received prior to issuance of the audit report on the financial statements lacks clarity. Under the proposed SAS the auditor would be required to include a statement in his/her report explaining the auditor's responsibility is in part to "read the other information and consider whether a material inconsistency exists between the other information and the financial statements or whether the other information otherwise appears to be materially misstated." The proposed SAS does not require the auditor to explain what is meant by a material inconsistency or a material misstatement. I recognize there are many audit terms that are not defined in the auditor's report, but this standard was in part proposed to enhance auditor transparency about a subject matter the auditor has not previously been required to report on and to help narrow the gap between the auditor's actual responsibility for other information and what users think.

The auditor is also required to state that if, based on the work performed, the auditor concludes that an uncorrected material misstatement of the other information exists, the auditor is required to describe it in the auditor's report. Because that statement does not mention material inconsistencies it may inappropriately be interpreted by a reader to mean that the auditor is not required to report any material inconsistencies identified.

I recognize the proposed SAS would introduce improved and expanded considerations in the application guidance. However, I don't think the expanded guidance is sufficient to support the auditor's broadened responsibility introduced by the proposed definition of misstatement of other information. I don't believe the proposed requirements and application guidance are sufficient for auditors to identify whether other information included in an annual report is "otherwise misleading, including because it omits or

obscures information necessary for a user to appropriately understand a matter disclosed in the other information.”

Determining what may be “misleading” to a reader or what may be “necessary for a user to appropriately understand a matter disclosed in the other information” would be inherently subjective and it would be difficult for auditors to understand how they would be expected to demonstrate compliance. Auditors may not have the expertise to assess the validity of certain statements that are not directly related to the audited financial statements.

I support the ASB’s goal to clarify and codify the auditor’s performance responsibilities related to other information. However, I don’t believe the proposal is sufficiently clear about what the auditor would have to do. For example, I recognize that auditors must use knowledge gained during the audit when considering whether they are aware of a misstatement of the other information included in the annual report. However, the proposed SAS does not sufficiently prescribe the nature and extent of procedures to be performed or the extent of documentation that would be required to evidence the auditor’s fulfillment of the performance responsibilities related to these considerations. Given the new reporting requirements and potential increased reporting risk for the auditor, I believe greater prescription was warranted.