

New auditing standard improves transparency regarding other information in annual reports

What happened?

In July 2019, the AICPA Auditing Standards Board (ASB) issued [Statement on Auditing Standards \(SAS\) No. 137, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports](#).

What has changed?

SAS No. 137 supersedes SAS No. 118, *Other Information In Documents Containing Audited Financial Statements*, as amended and codified in AU-C section 720. To enhance transparency relating to the auditor's responsibilities for other information included in annual reports and to reduce diversity in practice, the following changes have been made:

Clarification of Documents That Are Within the Scope of the Standard

While extant AU-C section 720 addresses the auditor's responsibility with respect to other information in *documents containing audited financial statements* and the auditor's report thereon, some CPAs have expressed confusion as to which documents they were required to subject to the procedures in AU-C section 720.

SAS No. 137 clarifies the scope of documents that the auditor is required to subject to the procedures and 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 the SAS.

The determination as to which documents constitute the entity's annual report is often difficult when the entity does not have a regulatory requirement to prepare an annual report or a framework that dictates what that annual report should contain. SAS No. 137 includes a requirement for the auditor, through discussion with management, to determine and obtain management's written acknowledgment regarding which document or documents comprise the annual report. This is intended to ensure that both the auditor and management understand the documents that are considered the entity's annual report and therefore are subject to the auditor's procedures.



SAS No. 137 will benefit users of the auditor's report by providing transparency with respect to the auditor's responsibilities for other information included in an annual report when the auditor has obtained all of the other information at the date of the auditor's report.

Reading the Other Information

SAS No. 137 clarifies the auditor's responsibility to consider whether a material inconsistency exists between the other information and the audited financial statements and to remain alert for indications that a material misstatement of fact exists. SAS No. 137 also requires the auditor to remain alert for indications that a material inconsistency exists between the other information and the auditor's knowledge obtained in the audit or the other information is otherwise misleading.

Reporting

SAS No. 137 requires, when the auditor has obtained all of the other information at the date of the auditor's report, the auditor to include a separate section in the auditor's report with the heading "Other Information," or other appropriate heading. The intent is to bring transparency to the auditor's responsibilities with respect to other information. SAS No. 137 includes an exhibit that provides examples of an "other information" paragraph when the auditor has not identified an uncorrected material misstatement of the other information as well as when the auditor has concluded that an uncorrected material misstatement of the other information exists.

Next steps

SAS No. 137 is effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted. Auditors are encouraged to review SAS No. 137 now to prepare.