



## Agenda Item 7

### Other Information

#### Objective of Agenda Item

To consider a draft of the proposed revised standard and to discuss issues with respect to the Other Information Task Force's project to revise AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*.

#### Background

A Task Force was formed to consider ISA 720 (Revised), *The Auditor's Responsibilities Related to Other Information* and whether revisions should be made to AU-C section 720, *Other Information in Documents Containing Audited Financial Statements* in order to converge U.S. GAAS with ISA 720 (Revised). That Task Force consists of:

Elizabeth S. Gantnier – Task Force Chair – Former ASB member  
Gerry Boaz – ASB member  
David Johnson – ARSC member  
Jeffrey Markert – Member of the State and Local Government Expert Panel and former Chair of the Task Force that worked on SAS nos. 118-120  
Chris Smith – Former ASB member  
Dan Wernke – TIC member

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

The Task Force presented certain issues with respect to the development of the proposed standard to the ASB at the ASB's meetings in August 2016, October 2016, and January 2017 and requested feedback. The Task Force also presented a first read draft of the proposed standard to the ASB in January 2017.

#### Issues for Discussion with the ASB

##### Issue #1 – Omitted Information

At its meeting in January 2017, the ASB directed that the definition of *misstatement* be consistent with the ISA 720 (Revised) definition – which would result in the terms *misleading* and *omits* being included in the proposed standard. With respect to omitted information, the ASB directed that application guidance be developed that makes clear that the auditor's responsibility is to act if the auditor is aware that information is omitted

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but has no responsibility to search for omitted information or to conclude that the other information is complete. ASB members suggested that the Task Force may consider language/guidance from the following with respect to omitted information/obscured information:

- Proposed ISA, *Addressing Disclosures in the Audit of Financial Statements*.
- SEC Rule 10b-5

The definition from ISA 720 (Revised) reads as follows:

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).

The “omits” language works well in the ISA as it ties to paragraph 110.2 of the International Ethics Standards Board for Accountants, *Code of Ethics for Professional Accountants* (IESBA Code). That paragraph requires the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information furnished recklessly, or omits or obscures information required to be included where such omission or obscurity would be misleading.

Corresponding language is not included in the AICPA Code. AICPA Professional Ethics Team staff stated that the following Code paragraph is considered to incorporate the essence of the IESBA standard (emphasis added);

**1.100.001 Integrity and Objectivity Rule**

**.01** In the performance of any *professional service*, a *member* shall maintain objectivity and integrity, shall be free of conflicts of interest, ***and shall not knowingly misrepresent facts or subordinate his or her judgment to others.*** [Prior reference: paragraph .01 of ET section 102]

To provide additional guidance with respect to the definition of misstatement of the other information, the Task Force proposes to add the following application paragraphs. Note that the paragraphs use ISA 720 (Revised) language as a base. All additions are shown in boldface italics and all deletions are shown in strikethrough. The footnotes are added to highlight where certain wording was derived from and is not intended to be included in the draft standard.

*Misstatement of the Other Information* (Ref: ~~Para~~ ***par.*** 12**~~(b)~~**)

~~A649~~. When a particular matter is disclosed in the other information, the other information may omit ~~or obscure~~ information that is necessary for a proper understanding of that matter ***or, in light of the circumstances, to keep the other***

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***information from being misleading.***<sup>1</sup> For example, if the other information purports to address the key performance indicators used by management, then omission of a key performance indicator used by management ***of which the auditor is aware*** could indicate that the other information is misleading. ***The auditor is not responsible to search for omitted information or for the completeness of the other information.***

***A10. Other information may be undermined by the inclusion of information that is not relevant or that obscures a proper understanding of the matters disclosed.***<sup>2</sup>

***A7A11.*** 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 ***ISASAS***. 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:

- 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 as such users may be expected to read the other information to provide context to the financial statements.
- 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.

**Action Requested of the ASB**

The Task Force requests that the ASB consider whether it agrees with the way the Task Force addressed the issue of omitted information in the draft standard.

**Issue #2 – Knowledge of Component Auditors When the Group Auditor Does Not Assume Responsibility for the Work of Component Auditors**

At its meeting in January 2017, the ASB directed that the standard make clear that the group auditor is responsible for reading the entire annual report but that if the group auditor does not assume responsibility for the work of component auditors, the group auditor's knowledge does not include the component auditor's knowledge.

<sup>1</sup> Boldface italics language is from SEC Rule 10b-5.

<sup>2</sup> Added separate application paragraph directed toward information that obscures a proper understanding of the matter. Wording is taken from ISA *Addressing Disclosures in the Audits of Financial Statements*

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The Task Force proposes to add the following application paragraph to the proposed standard (the application paragraph hangs off the requirement in paragraph 14(b) of the draft standard for the auditor to read the other information and 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).

**A35.** In the case of a group audit, while the group auditor is required to read the entirety of the other information, if, in accordance with paragraph .24 of AU-C section 600, the group auditor decides to make reference to a component auditor in the auditor's report on the group financial statements, the auditor's knowledge obtained during the audit does not include the knowledge obtained by the component auditors and the group auditor has no responsibility to obtain such knowledge from the component auditor.

Additionally, the Task Force prepared the following illustration of an other matter paragraph when the group auditor makes reference to the audit of the financial statements of a component performed by a component auditor:

*Other Information [Included in the Annual Report]*

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

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. However, as described in the Auditor's Responsibility paragraph, we did not audit the financial statements of B Company.

**Action Requested of the ASB**

The Task Force requests that the ASB consider whether it agrees with how the Task Force proposes to clarify the group auditor's responsibilities with respect to the component auditor's knowledge.

**Issue #3 – Ramifications if Other Information is Not Received**

Paragraph 13(a) of the proposed standard requires that the auditor determine, through discussions with management, which documents comprise the annual report and the planned timing of the issuance of such documents. Paragraph 13(c) requires that when

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some or all of the document(s) determined in (a) will not be available until after the date of the auditor's report on the financial statements, the auditor request management to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by the standard.

The Task Force added the following application paragraph to provide guidance when the auditor becomes aware that the entity issued other information without providing the auditor with a final version prior to issuance:

**A25.** If the auditor becomes aware that the entity did not provide the auditor with a final version of documents determined in paragraph .13a to comprise part of the annual report prior to issuance, actions that the auditor may take include:

- Communicating the matter to those charged with governance, if applicable
- Considering the need to obtain legal advice

In addition, while not required, in accordance with paragraph .A55 of the proposed standard, the auditor may consider identifying, in the auditor's report, any other information which the auditor expects to obtain after the date of the auditor's report. The Task Force questions whether additional communication to users of the auditor's report should be required if the auditor identifies in the auditor's report other information that the auditor expected to receive as of the date of the auditor's report and such information is never received.

**Action Requested of the ASB**

The Task Force requests the ASB's consideration and feedback on the proposed application paragraph providing guidance when the auditor becomes aware that the entity issued other information without providing the auditor with a final version prior to issuance. In addition, the Task Force requests the ASB's consideration and feedback as to whether additional communication to users of the auditor's report should be required if the auditor identifies in the auditor's report other information that the auditor expected to receive as of the date of the auditor's report and such information is never received.

**Next Steps**

The following represents the Task Force's timetable for future presentations to the ASB and ultimate issuance of the proposed standard:

- July 2017– Revised draft standard to be presented to the ASB with a request that the ASB consider voting to expose the proposed standard for public comment. The standard will be exposed with the proposed auditor's report standards.
- January 2018 – Assuming that the standard is exposed for comment in July/August 2017, consideration of comment letters on exposure draft.

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- May 2018 – Final draft presented to the ASB with a request that the ASB consider voting to issue as a final standard. The standard will be issued with the auditor’s report standards

**Agenda Items Presented:**

Agenda item 7A      Draft proposed standard showing requirements and application guidance in side-to-side format – clean

Agenda item 7B      Draft proposed standard showing requirements and application guidance in side-to-side format – redline to show changes from the draft presented to the ASB in January 2017

Agenda item 7C      Comparison of ISA 720 (Revised), extant AU-C section 720, and the draft proposed standard.

Ms. Gantnier will use agenda item 7B for the walk through of the proposed standard.