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Mr. Mike Glynn
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8776

Via email to mike.glynn@aicpa-cima.com

Re: Exposure Draft - Proposed Statements on Auditing Standards – The Auditor’s Responsibilities
Relating to Other Information Included in Annual Report (“Exposure Draft”)

Dear Mr. Glynn:

We are pleased to have an opportunity to comment on the Exposure Draft issued by Auditing Standards Board’s (ASB). AAFCPAs is an accounting firm/auditor, providing assurance, attest, tax, and advisory solutions to 450+ local, national, and international nonprofit and for profit clients.


Overall, we support the ASB’s efforts to enhance the auditor’s responsibility for the other information included in the annual report that is available to the public and the effort to avoid undermining the credibility of the financial statements and the auditor’s report thereon. However, as explained in our comment to question 3, we do not support to the requirements related to the reporting of material misstatements in other information, including prospective information.

Our detailed responses to the questions in the Exposure Draft are contained in the Appendix to this letter.

If you have any questions about our comments, please contact Matthew R. Hutt, CPA, partner, at 774.512.4043, mhutt@aafcpa.com.

Sincerely,

ALEXANDER, ARONSON, FINNING & CO., P.C.
Certified Public Accountants

By: 
Matthew R. Hutt, C.P.A., Vice President

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?

Yes, the proposed SAS clarifies the scope of documents required to be subjected to the auditor procedures and clearly defines the term "other information" used in this proposed SAS.

However, paragraph .2 of the proposed SAS states "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". Paragraph .2, derived from the extant AU-C section 720, creates some confusion about the newly defined scope of the proposed SAS. ASB should consider providing examples or clarification of such circumstances indicated in paragraph .2 that are also subject to the proposed SAS.

In addition, we understand the proposed SAS is intended to address the other information included in the annual reports, as defined in the proposed SAS. In practice, sometimes non-public entities, including not-for-profit organizations, are required to submit documents, schedules and information accompanying the basic financial statements to funding sources or lenders based on contract, grants, and agreements. For example, not-for-profit entities may be required by funding sources or lenders to include certain detailed schedules for the purpose of specific contracts, grants, and agreements. This information is different from the non-for-profit entity's annual reports or annual reports of governments, as defined in the proposed SAS. The auditor is not required to apply auditing procedures to these other schedules accompanying the basic financial statements. Since proposed SAS does not address this type of other information included in the audited financial statement as required by certain report users, ASB should provide guidance on how to report such other information/schedules accompanying the basic financial statements but not part of the basic financial statements.

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?

Yes, however it would be helpful and ensure the requirement is met if ASB provided additional illustrative examples for management's written acknowledgment regarding what document(s) be included in annual report, and the entity's manner and timing of the issuance of documents.

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?

We recognized the need to enhance the auditor's responsibility for the other information included in the annual reports that is available to the public, and the effort to avoid undermining the credibility of the financial statements and the auditor's report thereon. According to paragraph 11 of the proposed SAS, one of the objectives of the audit, having read the other information, is to respond appropriately when the auditor identified that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated. In addition, in the illustrations of other information section to be included in auditor's reports states the following:

"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 work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact."

Although the auditor is not responsible to search for omitted information or for the completeness of the other information, the proposed SAS does imply that the auditor has responsibility to identify material misstatements in the other information that is brought to their attention (also see paragraphs A35 – A49). Auditors plan and perform auditor procedures to obtain sufficient appropriate audit evidence to form an opinion about an entity's financial statements, not the other information. The proposed SAS introduces the concept of "material misstatements in other information" and may mislead the report users, and/or create unnecessary audit procedures performed on other information that is not part of the financial statements.

In addition, we have some concerns over the inclusion of prospective information in the scope of this proposed SAS (paragraph A37). We understand that through the audit, the auditor may consider prospective information when examining future cash flows, impairment tests, etc. However, the proposed SAS should clarify if additional procedures/inquiries are required to be performed on prospective information included in an annual report that is not otherwise examined as part of the financial statement audit in order to ensure there are no material misstatements. Additionally, the proposed SAS should address those situations where no evidence can be obtained to support the prospective information. While the auditor is not providing an opinion on the other information, the auditor is still reporting that there are no uncorrected misstatements in the other information. There is concern that a reader of the annual report will mistake this for a guarantee that all prospective information was examined by the auditor. In a financial statement audit, there is disclosure in the footnotes about the vulnerability of estimates to future events. Similar language is not required in an annual report.

Finally, in order to avoid confusion about the auditor's responsibility for reading the other information in the annual reports, we recommend to replace the term "misstatement of the other information" with "inconsistency of the other information," and redefine the "inconsistency" from the extant AU-C 720 to meet the objective of the proposed SAS.

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?

Yes

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?

The separate section included in the auditor's report relating to other information included in the annual report clearly documents that the auditor's opinion on the financial statements does not cover the other information or provide any assurance on it. However, the other information section does imply the auditor has responsibility to perform procedures to identify material misstatements in the other information and report the results of procedures performed, even though the auditors' did not provide an opinion on it.