



National Association of State Boards of Accountancy

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**Re: Proposed SAS: *The Auditor’s Responsibilities Relating to Other Information Included in Annual Report (OI)***

Dear Members of the AICPA Auditing Standards Board:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments to the above referenced Proposed Statement on Auditing Standards (the Statement). NASBA’s mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories which includes all audit, attest and other services provided by CPAs. In furtherance of that objective, NASBA offers the following responses to the specific questions raised in the Statement as well as additional comments.

### **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.*

The ability for an entity to share financial information and other information is evolving at a record pace. We believe the proposed statement’s definition of “annual report” is a necessary step to clarify what is included in the scope of the audit and deserves support. However, we do suggest the following be taken into consideration:

The proposed definition of Annual Report in paragraph 12 includes the phrase “provide owners (or similar stakeholders) ....” We believe the word “similar” should be deleted, and clearly state “provide owners or other intended users.”

Paragraph A11 provides application guidance specific to governmental entities; however, it should also acknowledge that governments may issue reports at something other than the entity level (e.g. fund, department or component unit level).

Paragraph A14 does not define “materiality” for other information within the context of the financial statements as a whole, which seems to be appropriate. Instead, “materiality for other information” appears to be left up to judgement in the context of the users. We suggest placing some limit on the materiality relative to the financial statements as a whole, which is the reference used and defined in the proposed Auditor Reporting statement, and what would be within the auditor’s knowledge.

### **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?*

As more companies move to electronic communications, including links in documents to the internet, questions will evolve as to what constitutes the annual report. An audit report is issued as of a period in time. We believe the best way to document the understanding between the auditor and the governing body is to require written acknowledgement as to what constitutes the entity’s annual report.

Paragraph 13c introduces the concept that some other information might not be available at the time of the issuance of the audit report, and indicates the auditor would have to perform the procedures required by this section when this information becomes available. In situations where the auditor believes other information will be included in the annual report after issuance of the audit report, we believe that the auditor should insert an “other matter” paragraph which indicates they have not yet received some, or all, of the information constituting the annual report. In addition, we recommend the standard indicate the auditor may issue a dual-dated opinion after addressing this updated information.

### **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?*

Formalizing the process in in the Statement to require reporting over other information should allow users to better understand what the auditor has done, and taken responsibility for, related to this information.

NASBA believes that when evaluating the other information for consistency with the audited financial statements and misstatement, the auditor should utilize all the knowledge about the client that the engagement team has, not just the knowledge specifically obtained as part of the audit. NASBA notes the requirement in proposed paragraph 16 and the application guidance in proposed paragraphs A43-44 which involves the auditor's consideration of other information obtained from sources beyond the audit. However, we believe it is difficult to distinguish between information from and not from the audit, and believe such differentiation in the proposed standard causes unnecessary complexity and confusion.

- *Does the proposed SAS provide adequate guidance with respect to the auditor's consideration of omitted or obscured information?*

Proposed application guidance in paragraphs A12 and A13 should be further enhanced regarding the level of responsibility for omitted information, to mitigate the risk the public will misunderstand this responsibility and draw more comfort than is intended from reading the auditor's report.

#### **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?*

When a group auditor decides to make reference to a component auditor in the auditor's report on the group financial statements, we believe the group engagement partner should provide the component auditor the opportunity to review the "other information" in the annual report that relates to the component entity, if they are not otherwise familiar with the component entity's other information. Users of the financial statements likely expect the same responsibility regarding "other information" that the group auditor is reporting on at the consolidated entity level.

Paragraph 22 introduces the concept that some other information may not be available at the time of the issuance of the audit report. The additional guidance in A59 indicates that the auditor may consider identifying other information that the auditor may obtain after issuance of the audit report. We do not understand how an auditor can consider taking responsibility for information that they

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have not seen. In situations where the auditor believes other information will be included in the annual report after issuance of the audit report, we believe that the auditor should either include an “other matter” paragraph which indicates they have not read or done any other procedures on this potentially forthcoming information, or they should issue a dual-dated opinion addressing this updated information upon receiving the additional information from the client.

### **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?*

We do not have any comments on this question other than what was stated earlier regarding situations where the auditor may not have obtained the “other information” prior to issuing their audit report.

However, we would suggest that the concluding sentence in the proposed report state: “We are not aware of any material inconsistencies, intentional omissions or misstatements of fact.” or “We have not identified any material inconsistencies, intentional omissions or misstatements of fact,” rather than “We have nothing to report in this regard.”

\* \* \*

We appreciate the opportunity to comment on the Statement.

Very truly yours,



Theodore W. Long, Jr., CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO