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May 15, 2018

Via e-mail: mike.glynn@aicpa-cima.com

Mr. Mike Glynn  
American Institute of Certified Public Accountants, Inc.  
1211 Avenue of the Americas  
New York, NY 10036-8775

**Re: Proposed Statement on Auditing Standards - *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports***

Dear Mr. Glynn:

BDO USA, LLP appreciates the opportunity to respond to the request for comments on the Proposed Statement on Auditing Standards (SAS), *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports (the proposal or the proposed SAS)*. We are supportive of the Auditing Standards Board's (ASB) strategy to converge its standards with the International Auditing and Assurance Standards Board (IAASB) and its ongoing contributions to the development of high-quality auditing, attestation and quality control standards through participation on the IAASB. However, while we are supportive of the ASB's convergence strategy, we believe it is important to recognize the differences between the U.S. and international environments and to understand the experience of the international community in implementing the International Standard on Auditing (ISA) 720 (Revised) since it became effective for audits of financial statements for periods ending on or after December 15, 2016. In particular, we have some concern that users of the auditor's report that includes an Other Information section may confer a greater degree of credibility to the other information than intended, by virtue of procedures being performed on the other information and the incorporation of the Other Information section within the auditor's report. For this reason, we do not believe this standard is needed. Furthermore, if a standard was put in place, we believe that any inclusion of an other information section in the audit report would cause a larger expectation gap and would lead to users inferring an incorrect level of assurance on the other information. Our comments and suggestions on this matter are further discussed in response to the Specific Request for Comment 5 below.

If, after consideration of all comments received, the ASB decides to move forward with the proposed standard, we have provided our comments to the specific questions posed in the Exposure Draft for your consideration. In instances where we have suggested changes to the text provided in the Proposed SAS, we have shown additions in bold italics and deletions in strikethrough text.



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**Specific 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.**

We agree that the proposed revisions are clear about the scope of documents that comprise 'other information.' Paragraph one of the standard explains the auditor's responsibilities relate to other information that is included in an entity's annual report. The standard then proceeds to define what constitutes an annual report for purposes of the proposed standard. The definition of an annual report provided in the standard explains that an annual report is:

A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains, accompanies, or incorporates by reference the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. Annual reports include annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public.

Furthermore, we believe the application guidance in paragraph A9, which provides a list of documents that are typically not considered part of an annual report, is helpful clarification.

**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?**

We believe the proposed requirement in paragraph 13 for the auditor to determine, through discussion with management, and obtain management's written acknowledgement 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 ensures that both the auditor



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and management understand the documents that are considered to constitute the entity's annual report.

However, while we have some concern about the auditor not obtaining all documents considered part of the annual report prior to the date of the auditor's report, but nevertheless being responsible for performing procedures on such documents when they are received, we recognize that in some cases a document may not be required to be released until a later time, or at a time of the entity's choosing. To emphasize the importance of a clear understanding between the auditor and the entity regarding providing the final version of documents to the auditor prior to issuance by the entity, we suggest strengthening the language in paragraph 13.c. to better reflect the statement as a requirement as follows:

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

Furthermore, we do not believe it would be appropriate to include any statement within the auditor's report regarding procedures performed on any information not released prior to the issuance of the audit report as suggested in paragraph A59 of the proposed standard.

### Specific Request for Comment 3

1. 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 do not believe the work effort required will result in any improvement in the auditor's understanding of the auditor's responsibility for other information, nor do we believe that this work effort is necessary to 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 believe the work effort needs to be considered not only within the context of the proposed definitions but also within the context of the objectives of the auditor. Paragraph 11 states:



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The objectives of the auditor, **having read the other information** [emphasis added], are as follows:

- a. To consider whether there is a material inconsistency between the other information and the financial statements
- b. To consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit
- c. To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated
- d. To report in accordance with this proposed SAS.

However, the requirements in the standard, paragraph 15.a. in particular, go beyond a reading, and as such, the suggestion in the objective that a reading is sufficient may be confusing.

The requirement in paragraph 15.a. requires the auditor to read the other information and do the following:

Consider whether there is a material inconsistency between the other information and the financial statements. As a basis for this consideration, the auditor should, to evaluate their consistency, **compare selected amounts or other items in the other information** [emphasis added] (that are intended to be the same as, to summarize, or to provide greater detail about the amounts or other items in the financial statements) with such amounts or other items in the financial statements.

For this reason, we suggest revising the objective to recognize that additional procedures are either required or contemplated beyond a reading of the other information. This might be accomplished by deleting the reference to 'having read the other information' in the objective - in essence being silent in the objective about the required procedures.

Moreover, paragraph 15.b requires the auditor to:

Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of the audit evidence obtained and conclusions reached in the audit.

We believe additional clarity is needed as reading the requirement alone a practitioner may conclude that it is not necessary to perform any additional procedures beyond a reading of the other information. The application guidance in paragraph A41 explains that the auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team or relevant component auditors (when the auditor assumes responsibility for the work of component auditors) is appropriate as a basis for the auditor's consideration of whether a material inconsistency exists. As such, we suggest adding the following phrase in bold italics, taken from the application guidance to paragraph 15.b. to enhance consistency in application of the standard:



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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. *As basis for this consideration, refer to relevant audit documentation or make inquiries of relevant members of the engagement team or relevant component auditors, as appropriate.*

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

We believe the application material in paragraphs A12 and A13 provides sufficient guidance regarding the auditor's consideration of omitted or obscured information. In particular we believe the guidance in paragraph A12, which explains that the auditor is not responsible for searching for omitted information or for the completeness of the other information - is essential guidance.

**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?**

Paragraph A38 explains how the requirement in paragraph 15, to read the other information, applies in a group audit situation. We believe the application material regarding the auditor's responsibility when the group auditor decides to make reference to a component auditor is clear in that the group auditor does not assume responsibility for the work of component auditors in this situation since the group auditor's knowledge does not extend to the component auditor's knowledge.

**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 generally do not support the use of a separate section in the auditor's report, as set out in the proposed standard, since we believe there is the potential for users to misunderstand the level of service provided with respect to the other information, irrespective of the statement included in the 'Other Information' section of the report that states, *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.* Furthermore, since the proposed standard correctly does not apply to information that is not related to the financial statements - since the auditor would ordinarily not have obtained any relevant knowledge of such matters during the audit - users may not recognize this differentiation in types of information.



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If the proposed standard is adopted by the ASB, we believe it will be important to engage and educate stakeholders about the limitations of the level of service provided with respect to the other information, which emphasizes that no level of assurance is being provided over the other information in order to avoid any misplaced reliance on the auditor's statement that 'We have nothing to report in this regard'. Such engagement could take the form of published articles in professional journals or the sponsorship of panel discussions on this topic, perhaps as a part of a broader discussion on the proposed changes to the auditor's report.

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We appreciate your consideration of our comments and suggestions and would be pleased to discuss them with you at your convenience. Please direct questions to Phillip Austin at (312) 730-1273 or Jan Herringer at (732) 734-3010.

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP