



May 15, 2018

Auditing Standards Board
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Via Email to Mike.Glynn@aicpa-cima.com

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

Dear Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the Proposed Statement on Auditing Standards, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*. We are supportive of the Board's project and the overarching goal of convergence with the International Standards on Auditing. We believe that an updated standard could bring more transparency and clarity to an area that can be complex and is often misunderstood. Nevertheless, we have a few concerns with the proposed requirements, particularly as they relate to reporting. We respectfully submit our responses to the Board's specific requests for comment along with other comments and concerns, including specific paragraph-level comments in the accompanying appendix.

Scope of the standard

We agree with the Board's assessment that the extant requirements in AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*, have been applied more broadly than intended. We are supportive of the proposed revisions to clarify the scope of documents subject to the standard. We believe they will help auditors to better understand the intended scope of the standard and improve transparency to users with respect to the auditor's responsibility for other information.

Obtaining and reading the other information

The proposed standard addresses circumstances when the other information is not made available until after the auditor's report is issued. There are a variety of situations that could arise after the report issuance, including situations where the auditor-client relationship terminates. We believe current practice is such that if the client relationship terminates during the lag between the date of the auditor's report and the availability of the other information, the auditor's responsibility under this standard also terminates. Thus, there may be instances where the auditor does not obtain and read the other information, especially if that client relationship was terminated acrimoniously. We recommend that the Board consider providing this example

as application guidance to paragraph 13c to assist the auditor in better understanding how to handle this type of situation.

Overall, we agree that the proposed requirements, along with the proposed definitions, can provide a better understanding of the auditor's responsibilities for other information. While there may be initial confusion about operationalizing the requirements with regard to the notions of "omit" or "obscure," the application guidance appears reasonably sufficient to guide auditors.

Group audit considerations

We found the requirements and guidance for when a group auditor makes reference to a component auditor in the auditor's report to be unclear, and we have provided more specific comments or revisions in the accompanying appendix. Ultimately, the "read and consider" requirement is based on what the auditor knows, so it is therefore up to the auditor to determine what he/she needs to do in order to meet the requirements of the standard. Therefore, we encourage the Board to keep the requirements principles-based and to provide for auditor judgment.

Reporting

While the proposed reporting requirements would bring the standards in line with the corresponding international standard, we have some concerns, from varying perspectives, with the application of the proposed standard.

We have concurrently communicated our concerns with the general length and readability of the proposed auditor's report in our May 15, 2018 comment letter on the Proposed Statements on Auditing Standards—Auditor Reporting, *Forming an Opinion and Reporting on Financial Statements*, *Communicating Key Audit Matters in the Independent Auditor's Report*, *Modifications to the Opinion in the Independent Auditor's Report*, and *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*. Our concern regarding the length of the auditor's report is exacerbated by the three to four paragraphs in this proposal that would be added to the auditor's report when reporting on other information. We encourage the Board to reconsider the proposed requirements to reduce the minimum disclosure in the spirit of providing a more concise, yet informative, auditor's report.

We are also concerned about the proposed reporting requirements when considered within the context of the auditor's responsibility for required supplementary information (RSI) under AU-C section 730, *Required Supplementary Information*. When an auditor has responsibility for both other information and RSI, as is common for governmental entities, we are concerned that a user of the financial statements might be confused by the differing levels of responsibility described in the auditor's report. We further question whether it is appropriate for the RSI standard to contain higher performance requirements, while the proposed other information standard contains more reporting responsibilities. Since reporting on RSI is unique under auditing standards generally accepted in the United States of America, it would not have been contemplated during the international standard-setting process. Thus, we strongly urge the

Board to reconsider the proposed reporting requirements in light of the requirements of AU-C section 730. We submit the following suggested language for the Board's consideration.

Other information [included in the annual report]

Management is responsible for the other information, which comprises [the information included in the X report], included in the annual report. In accordance with auditing standards generally accepted in the United States of America, we have read the other information and, in doing so, considered 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. We do not express an opinion or provide any assurance on the other information.

In the event the auditor identifies a material inconsistency or material misstatement of the other information, we recommend the following language be added before the last sentence to the above suggested paragraph.

Although our opinion on the basic financial statements is not affected, the following material inconsistency [or material misstatement] exists [identify the inconsistency or misstatement].

We believe the suggested wording is more logical and better aligns the reporting not only with the underlying performance requirements related to other information but also with the related performance and reporting requirements relative to RSI.

We would be pleased to discuss our comments with you. If you have any questions, please contact Bert Fox, National Managing Partner of Professional Standards, at 312-602-9080 or Bert.Fox@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP

Appendix

Paragraph-level comments

The following table provides certain paragraph-level comments for the Board’s consideration. Certain comments include specific suggested revisions to the proposed text. ***Boldface italics*** denotes new language; deleted text is shown in ~~strikethrough~~.

AU-C 720

Paragraph

4	We believe that, generally, the auditing standards contain the notion of “users of the financial statements” and that the reference in this paragraph to “users for whom the auditor’s report is prepared” appears inappropriate. We recommend that phrase be revised to say “users of the financial statements” in order to remain consistent with the vernacular used in other auditing standards.
9	We recommend the following edit to create consistency with the corresponding standards: This proposed SAS does not apply to <i>supplementary</i> supplemental-information addressed by...
13	We believe the terms “compose” and “composing,” in subparagraphs a and b, respectively, should be revised to “comprise” and “comprising.”
20b	We find this proposed requirement confusing within the context of the auditor’s responsibilities in similar situations (for example, AU-C section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>). We question why the auditor wouldn’t first assess the steps taken by management to timely and appropriately determine that anyone in receipt of the financial statements has been informed of the material misstatement of the other information. If management does not take the necessary steps, the auditor would then take appropriate action. It appears this paragraph is written on the assumption that management will not correct the material misstatement of the other information and therefore would not be inclined to fulfill its responsibility to communicate with financial statement users about the material misstatement, and we do not believe this to be an appropriate assumption.
22	It is unclear whether this paragraph means that the auditor has not only obtained the other information, but has obtained it in sufficient time to perform the required procedures of the proposed standard. In order for the reporting to be meaningful, we believe the auditor would need ample time to complete his or her procedures around the other information. We ask the Board to consider providing application guidance relevant to this paragraph addressing instances where the auditor may not receive the other information in a timely manner and how reporting could be impacted.
23b	Overall, paragraph 23 is predicated on the fact that the auditor has received some or all of the other information. Therefore, the reference to “if any” in subparagraph b appears inappropriate, and we recommend the following edits: An identification of <i>the</i> other information, if any , obtained by the auditor prior to the date of the auditor’s report...
A3	The second sentence of this paragraph is not a complete sentence and appears to be an extension of the first sentence.
A4	We do not believe this proposed standard “addresses” such other information. Rather, we feel it is more appropriate to say that this proposed standard “applies to” that other information. As such, we recommend the following revision to the beginning of the sentence. This proposed SAS also <i>applies to</i> addresses other information for which a designated standard setter...

AU-C 720*Paragraph*

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- A17 We recommend revising the reference to “other written communication” at the end of this paragraph to instead say “other suitable form of written agreement” to align with AU-C section 210, *Terms of Engagement*.
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- A22 We find the second sentence of this proposed paragraph to be confusing. It implies that this separate agreement with management occurred prior to signing the audit engagement letter, and we question why or how this could happen. Is this sentence rather intended to illustrate the flexibility of how management’s written acknowledgment can be obtained, as discussed in paragraph A17? We recommend the Board revisit the intended meaning and understandability of this paragraph.
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- A59 We recommend the following edits to this paragraph to improve the clarity of the proposed guidance:
- ...The auditor may consider it appropriate to do so, for example, when management ~~can~~ represents to the auditor, ***in accordance with paragraph 13(c)***, that such other information will be issued after the date of the auditor’s report.
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- Illustration 1 If the Board moves forward with the proposed reporting illustrations, we believe the illustration should also include suggested language for instances where some, but not all, of the other information was obtained prior to the date of the auditor’s report. We recommend that the Board incorporate the following bolded, italicized language into this illustration as an option to clarify these instances (note: the proposed language below aligns with illustration 3 of ISA 720, *The Auditor’s Responsibilities Relating to Other Information*):

The other information ***obtained at the date of this auditor’s report is*** [information included in the X report], but does not include the financial statements and our auditor’s report thereon.

We further note that the sentence beginning with “If, based on the work we performed” starts a new paragraph in the other three illustrations presented, but remains part of the previous paragraph in this illustration. We do not readily see a reason for the difference and therefore recommend the illustrations be consistently presented by either creating a new paragraph in illustration 1 or combining the paragraphs in the other three illustrations.
