

May 15, 2018

Mike Glynn
AICPA Auditing Standards Board

Submitted via email to mike.glynn@aicpa-cima.com

Re: *Proposed Statements on Auditing Standards – The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*

The Virginia Society of CPAs (VSCPA) Accounting & Auditing Advisory Committee has reviewed the *Proposed Statements on Auditing Standards – The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*, issued by the AICPA ASB. The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members’ interests. The VSCPA membership consists of more than 13,000 individual members who actively work in public accounting, private industry, government and education. We acknowledge that the ASB has issued the Proposed SAS in an effort to benefit users of audited financial statements. The VSCPA appreciates the work the ASB has undertaken on this effort and the opportunity to respond to the Proposed SAS.

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.

Response: We believe additional guidance is necessary to clarify the definition of an annual report to avoid confusion regarding instances where annual reports do not contain a complete copy of the audited financial statements (including required footnotes) with the auditor’s report. There are many organizations that produce documents as “annual reports” without including the complete set of audited financial statements. These documents instead may include excerpts or selected highlighted financial information that would not be appropriate to include in the scope of this proposed SAS even though the annual report prepared by management may label the selected financial information as audited. If the complete set of financial statements, footnotes and the auditor’s report are not included in these documents, we believe it does not qualify as an annual report.

Additionally, we believe the reference to “incorporate by reference” in the current definition may also cause significant confusion by practitioners that are not familiar with the U.S. Securities and Exchange Commission (or other similar regulators) protocols that allow for a set of audited financial statements and the auditor’s report thereon (that are publicly available through EDGAR or other similar system) to be legally incorporated into a previously or subsequently filed document. As currently drafted, we believe considerable confusion would be created by documents that refer to audited selected financial information or excerpts from the audited financial statements (e.g., a copy of the balance sheets and/or income statements) without complete footnote disclosures and a copy of the auditor’s report within that document or set of documents.

Therefore, we believe the current definition should be amended as follows:

“Annual report. 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 or accompanies, the complete set of financial statements including footnote disclosures 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, which include or accompany the complete set of audited financial statements, including footnote disclosures as required by the basis of accounting, and the auditor's report thereon."

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?

Response: Yes. We believe it is appropriate for the auditor to determine whether there will be an annual report that contains or accompanies the complete set of financial statements, including footnote disclosures and the auditor's report thereon. We believe it is appropriate to require the auditor to 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.

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

Response 1: Yes. We believe that the requirement to determine whether there will be an annual that report will contain or accompany the complete set of financial statements, including footnote disclosures and the auditor's report thereon, will help prevent instances where an annual report is released without the auditor's awareness of such a document or the ability to timely complete the auditor's required procedures over other information that accompanies the audited financial statements and the auditor's report thereon.

Response 2: Yes. We believe the guidance is clear that an auditor is not responsible for searching for omitted information or for the completeness of the other information, but should remain alert when reading other information for potential material misstatement by omitting or obscuring information necessary for a proper understanding by users of other information in the annual 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?

Response: 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?

Response: No. We believe the guidance needs to be clarified.

We believe explicit guidance should be included stating that there should be no other matters paragraph added to the auditor's report when the auditor has **not yet completed** the procedures required by this proposed SAS because the annual report is not complete or timely been made available by management to the auditor prior to the date of the auditor's report. We believe the following edit is necessary to paragraph 22:

"22. The auditor's report should include a separate section with the heading "Other Information," or other appropriate heading, when, at the date of the auditor's report, the auditor has obtained all of the other information. "

However, when the annual report other information **is** complete and made available by management to the auditor prior to the date of the auditor's report, we believe the following edits are necessary to the example other matters paragraph to avoid confusion regarding the auditor's responsibilities:

"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. 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.

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."

We believe the last sentence of the example should be deleted to avoid any confusion or inference by users of auditor assurance on the other information. We believe the statement "...We have nothing to report in this regard." implies some level of implied auditor assurance. We believe that stating management's and the auditor's responsibility regarding the other information and clearly stating that no opinion or any form of assurance is expressed by the auditor is the most effective manner of communication to the users.

Again, the VSCPA appreciates the opportunity to respond to this ED. Please direct any questions or concerns to VSCPA Senior Director, Learning, Linda Newsom-McCurdy, CAE, at lnnewsom-mccurdy@vscpa.com or (804) 612-9421.

Sincerely,

Charles M. Valadez, CPA, CITP, CGMA
Chair

2018–2019 VSCPA Accounting & Auditing Advisory Committee

Charles Valadez, CPA — Chair
Benjamin Garner, CPA — Vice Chair
Zach Borgerding, CPA
Michael Cahill, CPA
George Crowell, CPA
Scott Davis, CPA
Tamara Greear, CPA
M. James Hartson, Jr., CPA
Joshua Keene, CPA
James Kiley, CPA
Michael Phillips, CPA

Ashleigh Smith, CPA
Mulugeta Wondimu, CPA
Natalya Yashina, CPA