

May 18, 2018

Mr. Mike Glynn  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas, 19<sup>th</sup> Floor  
New York, NY 10036-8775  
USA

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

Dear Mr. Glynn:

Deloitte & Touche LLP ("D&T," "our," or "we") is pleased to respond to the request for public comment from the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) on its proposed Statement on Auditing Standards (SAS), *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports* (the "proposed SAS").

**Overall Comments**

We are supportive of the objectives of the ASB's proposal to:

- Converge, where applicable, with the recently released International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* (ISA 720 (Revised)).
- Improve audit quality by bringing greater consistency regarding auditors' consideration of other information and reducing diversity in practice with respect to documents that are considered to be within the scope of the proposed SAS.
- Increase the value of the audit, without changing its scope, in a cost-beneficial manner, through enhancing the auditor's responsibility with respect to the other information.
- Narrow potential or existing expectation gaps through requiring auditors to articulate in their reports their responsibilities under the proposed SAS, and the outcome of their work relative to the other information.

Based on our review of the proposed SAS, we believe there are certain implementation and other issues that should be further considered by the ASB to achieve those objectives. We discuss these issues below and further in Appendix A. It should be noted that many of our comments in this letter arise from the reporting requirements in the proposed SAS, including, but not limited to, the following:

- Lack of clarity when other information is received after the report date, including the implications for the dating of the report and whether to re-issue the report to include language in the report consistent with paragraphs 22-23 of the proposed SAS when

the auditor's report is included in a document that includes the subsequently received other information.

- Lack of clarity when only part of the other information has been received prior to the report date, including the complexities of reporting in such circumstances (including when the report is later included in a document containing all the other information).
- Concerns around the language of the reporting requirement, including the placement of the language in the illustrative example reports, as well as the need to include such language in all reporting examples (given what we believe to be the potential infrequency with which reporting on other information might occur, as many non-listed entities do not prepare documents that meet the definition of an annual report as defined in paragraph 12 of the proposed SAS).

While we support the objective of narrowing the existing expectation gap through expanded auditor reporting, we believe the issues we have identified pose significant barriers in achieving this objective. While we have endeavored to offer suggestions as to ways to address the issues identified, we recognize the complexity of solving these issues in the U.S. environment, and providing appropriate direction or guidance in the standard. Because we believe the lack of clarity in the auditor's reporting responsibilities when other information is received after the report date would likely create inconsistency in reporting and widen the potential or existing expectation gaps as to the auditor's responsibility with such information, we therefore would not object to the ASB giving consideration to removing the reporting requirements in paragraphs 22-24 and the related application material in the proposed SAS.

However, if the reporting requirements in paragraphs 22-24 and the related application material in the proposed SAS are not deleted, we suggest the following (along with our comments on paragraphs 22-24 in the "Specific Comments" section below):

- We believe application material should be provided to address the responsibilities of the successor and predecessor auditors with respect to other information in the auditor's report.

For example, if the prior period financial statements were audited by a predecessor auditor, and the successor auditor's responsibilities do not extend beyond the knowledge obtained in the audit of the current year's financial statements under paragraphs 15b and A38 of the proposed SAS, we suggest that application material be provided to address how the successor auditor may modify the other information section of the auditor's report to bring this to the attention of the users of the auditor's report.

- We believe the other information section in the auditor's report should be included immediately after the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of the auditor's report in the applicable illustrations in the proposed SASs related to auditor reporting.

By including the other information section before the "Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements" and "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" sections of the auditor's report (as presented in Illustration 1 of the proposed SAS, *Forming an Opinion and Reporting on Financial Statements*), it gives undue prominence to the auditor's responsibilities related to the other information. While we understand the proposed SAS does not mandate the placement of the paragraph related to other information, we believe by including it after the "Basis for Opinion" section in the Illustrative Auditor's Reports in Appendix A to the SAS, the ASB is inferring that this is the preferred location.

- We believe application material to paragraph 22 should be provided for instances in which the auditor’s report includes sections for required supplementary information and/or supplementary information in addition to other information, to allow the auditor to have a separate section in the auditor’s report that covers all such information and then subsection headers for the different types of information, such as:

Other Information [Included in the Annual Report], [Required Supplementary Information and Supplementary Information].

- We believe application material should be provided to address the auditor’s reporting responsibilities in situations in which other information is received after the auditor’s report is issued and such other information will contain, accompany, or incorporate by reference the financial statements and the auditor’s report thereon. It is unclear in the proposed SAS whether the auditor should reissue the auditor’s report and add the section to the report related to other information in these circumstances. Currently, in situations in which other information is received after the auditor’s report is issued and such other information will contain, accompany, or incorporate by reference the financial statements and the auditor’s report thereon, the auditor’s general use report is not reissued. Therefore, should the proposed SAS instruct the auditor to reissue the auditor’s report and add the section related to other information in these circumstances, this would be a change in current industry practice.

In addition, application material would also be necessary to address the dating of the auditor’s reports in these circumstances to make clear that the addition of the section on other information does not impact the date of the auditor’s report since the auditor’s opinion does not extend to such other information. However, although we believe further clarity is necessary as it relates to the reissuance of the auditor’s report, we are unsure if the proposed SAS can require the auditor to reissue its auditor’s report in these circumstances. If the ASB concludes that it cannot mandate the reissuance of the auditor’s report in these situations, we believe that the reporting element of the proposed SAS could cause confusion because, unlike certain circumstances in ISA 720 (Revised), the proposed SAS does not require the other information section to be included in the auditor’s report when the other information is expected to be received after the date of the auditor’s report.

In addition, the proposed SAS indicates that if issued, it will be effective for audits of financial statements for periods *beginning on or after* June 15, 2019. We note that the effective dates for the other proposed SASs related to auditor reporting are for periods *ending on or after* June 15, 2019. We believe the effective dates for all these proposed SASs should be the same. Furthermore, we believe that the effective date as stated in this proposed SAS, as well as the effective date in the proposed SASs on auditor reporting, do not allow sufficient time for the auditor to adequately prepare for the implementation of the proposed SASs. While we encourage finalization of the proposed SASs quickly, we believe that when deciding on the effective date, other changes auditors are facing need to be acknowledged (e.g., auditing the new accounting requirements regarding revenue recognition, leasing, and expected credit losses and dealing with new PCAOB requirements related to communication of critical audit matters). We suggest the Board make this proposed SAS, as well as the proposed SASs on auditor reporting, effective for audits of financial statements for periods ending on or after December 15, 2019, or June 15, 2020.

### **Specific Comments**

The following comments relate to specific paragraphs in the proposed SAS. The editorial recommendations are highlighted as follows: Additions are noted in bold underline and deletions are noted in strike-through text.

Paragraphs 2, A2, and A17

In paragraph 2 we suggest “devotes attention” be replaced with “applies this proposed SAS”, and corresponding changes to paragraph A2. We also suggest that paragraph A17 be modified such that management’s written acknowledgement also include the other documents to which the auditor, at management’s request, has applied this proposed SAS.

In many cases, management may request the auditor to devote attention (which could be interpreted to mean actions such as read, look at, review) to other documents and it may not be clear to which documents management expects the auditor to apply this proposed SAS. Therefore, written communications regarding the other documents to which the auditor, at management’s request, applies this proposed SAS will prevent any misunderstanding and will clarify to management the procedures that the auditor will be performing. We also suggest a reference to the application material in paragraph A17 be added to paragraph 2. Suggested changes are as follows:

2. This SAS also may be applied, adapted as necessary in the circumstances, to other documents to which the auditor, at management’s request, **applies this proposed SAS** devotes attention. (Ref: par. A2-A4, **A17**)
- A2. In instances in which the auditor applies this proposed SAS to other documents ~~to which the auditor, at management’s request, devotes attention~~, all of the requirements of this proposed SAS, including those standards regarding reporting, are applicable, adapted as necessary in the circumstances.
- A17. Management’s written acknowledgement of the documents that constitute the annual report, **other documents to which the auditor, at management’s request, has applied this proposed SAS**, and the expected timing that such documents will be made available to the auditor may be included in the engagement letter, an amendment to the engagement letter, a representation letter, or some other written communication.

### Paragraph 13

We suggest that “compose” be replaced with “make up” to be consistent with paragraphs A15 and A18 of the proposed SAS. Furthermore, while “comprised” is used in the illustrations in paragraph A65 of the proposed SAS, our comment on paragraph A65 below suggests the term also be deleted from the illustrations.

13. The auditor should do the following: (Ref: par. A16–A26)
  - a. Determine, through discussion with management, and obtain management’s written acknowledgement regarding, which document or documents **make up** ~~compose~~ the annual report, and the entity’s planned manner and timing of the issuance of such documents.
  - b. Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor’s report, the final version of the document or documents **that make up** ~~composing~~ the annual report.
  - c. 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 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. (Ref: par. A25-A26)

### Paragraphs 20, A55, and A56

Paragraphs 20 and A55 of the proposed SAS require the auditor to seek to have the uncorrected material misstatement in other information appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report. However, paragraph A56, which is consistent with the requirement of paragraph 17b of AU-C section 560, *Subsequent Events and Subsequently Discovered Facts* (AU-C 560), states that the auditor may provide a new or amended auditor's report to management including a modified section in accordance with paragraph 23, and request management to provide the new or amended auditor's report to anyone in receipt of the financial statements and the auditor's report and review the steps taken by management to provide the new or amended auditor's report to such users.

As such, and to be consistent with AU-C 560, rather than requiring the auditor to have the uncorrected material misstatement in other information appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report, we suggest that paragraph 20 be modified to require that the auditor consider what actions might be appropriate and consider seeking legal advice about the auditor's legal rights and obligations. The appropriate actions are then clarified by the application material in paragraph A56 of the proposed SAS.

Similarly, and to be consistent with AU-C 560, we suggest that paragraph A55 be deleted and paragraph A56 be modified to include an action for the auditor to assess whether the steps taken by management are timely and appropriate. This is also consistent with the requirement of paragraph 17b of AU-C 560.

20. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor should do the following:
  - a. If the other information is corrected, perform the procedures necessary in the circumstances (Ref: par. A54)
  - b. If the other information is not corrected after communicating with those charged with governance, **the auditor should consider what actions might be appropriate and should consider seeking legal advice about the auditor's legal rights and obligations**~~take appropriate action considering the auditor's legal rights and obligations to seek to have the uncorrected material misstatement appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report.~~ (Ref: par. A55-A56)
- ~~A55. If those charged with governance do not agree to revise the other information, taking appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report requires the exercise of professional judgment, and may be affected by relevant law or regulation in the jurisdiction. Accordingly, the auditor may consider it appropriate to seek legal advice about the auditor's legal rights and obligations.~~
- A56. When a material misstatement of the other information remains uncorrected, appropriate actions that the auditor may take ~~to seek to have the uncorrected material misstatement appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report,~~ when permitted by law or regulation, include, for example, the following:
  - **Assessing whether the steps taken by management to bring the material misstatement of the other information to the attention of those in receipt of the other information are timely and appropriate, including making them aware that the other information is not to be relied upon.**

- Providing a new or amended auditor's report to management including a modified section in accordance with paragraph 23, and requesting management to provide this new or amended auditor's report to anyone in receipt of the financial statements and the auditor's report. In doing so, the auditor may need to consider the effect, if any, on the date of the new or amended auditor's report, in view of the requirements of GAAS or applicable law or regulation. The auditor may also review the steps taken by management to provide the new or amended auditor's report to such users.
- Bringing the material misstatement of the other information to the attention of known users of the financial statements and the auditor's report.
- Communicating with a regulator or relevant professional body about the uncorrected material misstatement.
- Considering the implications for engagement continuance (see also paragraph A52).

#### Paragraph 22

We suggest that "date of the auditor's report" be replaced with "report release date" as defined in paragraph 6 of AU-C section 230, *Audit Documentation*. Alternatively, we suggest that application material be provided for instances when other information is obtained after the date of the auditor's report, but before the report release date.

We also suggest that "some or all of" be deleted from paragraph 22. We do not believe it is necessary to be prescriptive and require that simply because "some" small piece of the other information was received prior to the auditor's report date, the reporting requirement is triggered; rather, we believe that if all of the other information is received before the audit report date, and the procedures required by the proposed SAS are performed, then the reporting requirements should be triggered. This will alleviate situations in which the auditor does not or cannot perform the procedures required by this SAS prior to the audit report date. For example:

- Other information is not received timely and the auditor does not have sufficient time to perform the procedures prior to the audit report date.
- Other information received prior to the audit report date is not final, and therefore the auditor is placed in a position of performing the procedures required by this SAS when the information may have errors or be subject to further changes.
- Reporting on only a small piece of the other information may be misleading or confusing to the users of the financial statements, and therefore it is appropriate to perform the procedures required by this SAS at the point when all of the other information has been provided). For example, reporting on only one schedule (e.g., a schedule of the number of employees) from the other information that was provided by management prior to the audit report date. Inclusion of a description of one schedule in the auditor's report may be confusing to the users of the financial statements. Furthermore, in such a circumstance, it is likely more appropriate for the auditor to perform the procedures required by this SAS over the schedule at the point when all of the other information has been received and the auditor is able to consider the schedule in the context of all the other information.

Furthermore, we believe that the U.S. does not generally have circumstances whereby the other information consists of two or more separate documents, as described in paragraph A7. Because of this, it is less likely that other information would be provided to the auditor piecemeal. However, to alleviate such circumstances, and the resulting complexities in reporting when the other information is not received in one package, we suggest additional

application material be developed associated with paragraph 13b to encourage the auditor to consider the suggested dates that management will provide the other information and agree as to when the procedures on the other information will be performed, including whether it makes most sense to perform such procedures on the other information in its entirety after the auditor's report date.

We have included our suggested edit for paragraph 22 below, and suggest the edit be applied to other paragraphs of the proposed SAS, as applicable, when similar language is used.

22. The auditor's report should include a separate section with the heading "Other Information," or other appropriate heading, when, at the **report release** date of ~~the auditor's report~~ the auditor has obtained some or all of the other information **and has performed the procedures required by this proposed SAS.**

#### Paragraph 23

We suggest the following: (a) "if any" be deleted from paragraph 23, as the auditor's report is only required to include an other information section by paragraph 22 when at the date of the auditor's report, the auditor has obtained the other information (note that this is different than ISA 720 (Revised), paragraph 21(a), in which the circumstance exists where the auditor may not have performed procedures, but is still reporting) and (b) the statement that the auditor's opinion does not cover the other information be deleted to align with the auditor's reporting requirements of AU-C section 730, *Required Supplementary Information* (AU-C 730), which does not include similar language and we believe is not needed. Therefore, we suggest the following edits to paragraph 23:

23. When the auditor's report is required to include an other information section in accordance with paragraph 22, the section should include the following: (Ref: par. A58)
  - a. A statement that management is responsible for the other information
  - b. An identification of other information, ~~if any,~~ obtained by the auditor prior to the date of the auditor's report (Ref: par. A59)
  - c. A statement that ~~the auditor's opinion does not cover the other information and that~~ the auditor does not express an opinion or any form of assurance on the other information
  - d. A description of the auditor's responsibilities relating to reading, considering, and reporting on other information as required by this proposed SAS
  - e. Either
    - i. a statement that the auditor has nothing to report or
    - ii. if the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information

We also believe that AU-C 730 should be revised to add a (1) statement that management is responsible for the required supplementary information and (2) statement that the auditor has nothing to report to be consistent with the proposed SAS.

#### Paragraph A65

We suggest the following edits for Illustration 1 to address comments previously provided. We also suggest that the edits be applied to the other illustrations as applicable (note we believe the paragraph on other information can be one paragraph versus three as presented in the proposed SAS).

#### Other Information [Included in the Annual Report]

Management is responsible for the other information [included in the annual report<sup>1</sup>] **(the "other information")**. The other information comprises the ~~information included in the X report~~,<sup>2</sup> but does not include the financial statements and our auditor's report thereon. ~~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. 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 the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Paragraph A12

We suggest the following language be deleted to align with ISA 720 (Revised):

- A12. When a particular matter is disclosed in the other information, the other information may omit information that is necessary for a proper understanding of that matter ~~or, in light of the circumstances, to keep the other information from being misleading~~. The auditor is not responsible to search for omitted information or for the completeness of the other information.

#### Paragraph A13

We suggest the following language be added to clarify the paragraph is intended to address the understanding of matters disclosed in the other information:

- A13. Other information may be undermined by the inclusion of information that is not relevant or that obscures a proper understanding of the matters disclosed **in the other information**.

#### Paragraph A33

We suggest aligning the proposed SAS with ISA 720 (Revised), and therefore indenting the last two bullets in paragraph A33 of the proposed SAS.

- A33. Determining the nature and extent of procedures to address the requirement in paragraph 15a is a matter of professional judgment, recognizing that the auditor's responsibilities under this proposed SAS do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information. Examples of such procedures include the following:
- For information that is intended to be the same as information in the financial statements, comparing the information to the financial statements
  - For information intended to convey the same meaning as disclosures in the financial statements, comparing the words used and considering the

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<sup>1</sup> **A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.**

<sup>2</sup> ~~A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.~~

significance of differences in wording used and whether such differences imply different meanings

- Obtaining a reconciliation between an amount within the other information and the financial statements from management
  - **Comparing items in the reconciliation to the financial statements and the other information**
  - **Checking whether the calculations within the reconciliation are arithmetically accurate**
- ~~Comparing items in the reconciliation to the financial statements and the other information~~
- ~~Checking whether the calculations within the reconciliation are arithmetically accurate~~

Paragraph A59

We suggest the paragraph be deleted from the proposed SAS as it may cause inconsistency in auditor reporting and widen the potential or existing expectation gaps for users of the auditor's report. The proposed SAS also does not include an illustration of the auditor's report in this circumstance.

~~A59. Though not required, the auditor may consider that the identification in the auditor's report of other information that the auditor expects to obtain after the date of the auditor's report would be appropriate in order to provide additional transparency about the other information that is subject to the auditor's responsibilities under this proposed SAS. The auditor may consider it appropriate to do so, for example, when management can represent to the auditor that such other information will be issued after the date of the auditor's report.~~

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We would be pleased to discuss our letter with you at your convenience. If you have any further questions, please contact Dora Burzenski at (206) 716-7881.

Sincerely,

*Deloitte & Touche LLP*

## **Appendix A – Request for Comment by the ASB**

This appendix includes responses for “Request for Comment” questions included in the proposed SAS pertaining to (1) significant changes from existing standards, (2) significant proposed amendments to existing auditor reporting standards, (3) issues for consideration, and (4) proposed amendments addressing disclosures in the audit of financial statements.

### **Issues for Consideration**

1. Do the proposed revisions clarify the scope of documents required to be subjected to the auditor’s procedures?

Yes, we believe the proposed revisions clarify the scope of documents required to be subjected to the auditor’s procedures.

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, except as it relates to our comment on paragraphs 2, A2, and A17 in the “Specific Comments” section above.

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?

Yes, except as it relates to our comments on paragraphs 20, 22, A33, A55, and A56 in the “Specific Comments” section below, and our suggestion that application material be provided to clarify the responsibilities of the successor and predecessor auditors in the “Overall Comments” section above.

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

Yes, except as it relates to our comments on paragraphs A12 and A13 in the “Specific Comments” section above.

5. 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, except as it relates to our suggestion that the other information section in the auditor’s report be included immediately after the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of the auditor’s report in the illustrations of the proposed SASs related to auditor reporting. See the “Overall Comments” section above for additional discussion.

6. 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?

While we believe that the language in the separate section in the auditor's report appropriately conveys the nature and extent of the auditor's consideration, we have several comments as it relates to this section (see comments on paragraphs 23, A59, and A65 in the "Specific Comments" section, and our remaining suggestions in the "Overall Comments" section). Given the lack of clarity in the auditor's reporting responsibilities when other information is received after the report date, auditor reporting may be inconsistent and widen the potential or existing expectation gaps for users of the report. As noted earlier, we would not object to removing the requirement to report on the other information in the auditor's report.