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

Dear Mr. Glynn:

Ernst & Young LLP is pleased to submit this comment letter to the Auditing Standards Board (ASB or the Board) in response to the ASB's request for comment on its proposed Statement on Auditing Standards (SAS). We support the ASB's efforts to improve audit quality by reducing diversity in practice in how auditors understand and fulfill their responsibilities for other information included in annual reports.

### **Overall observations**

Overall, we do not support the proposed SAS. While we support the ASB's efforts to clarify the auditor's responsibilities with respect to other information in annual reports and to make the auditor's work effort more transparent by describing those responsibilities in the auditor's report, we believe the proposed SAS falls short of meeting these objectives. Transparency will not be significantly improved under the proposed SAS because draft annual reports typically are not made available to the auditor until after the financial statement audit is completed and the auditor's report is released. As a result, the auditor's report would not include the proposed separate section addressing other information.

We do not support broadening the auditor's responsibility introduced by the proposed definition of misstatement of other information and the corresponding performance requirements. Auditors may not have the expertise to assess the validity of certain statements that are not directly related to the audited financial statements, and the Board's proposal would make it more difficult for auditors to comply with the proposed performance requirements. We also believe the proposed performance and reporting requirements need to be clarified to make them operable and capable of being consistently applied. We summarize our principal concerns and recommendations below and elaborate on them in Attachment A.

Given our concerns with the proposed SAS, the absence of any known concerns with the existing standards, and the knowledge that the vast majority of non-issuers do not publish annual reports, we recommend that the Board not move forward with its proposed SAS at this time. Among other things, we think the Board should consider any post-implementation review of International Standard on

Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, performed by the International Auditing and Assurance Standards Board, specifically as it relates to audits of non-issuers. We also recommend that the Board continue to monitor the efforts of the Public Company Accounting Oversight Board (PCAOB) in this area and consider the feedback the PCAOB received on its 2013 proposed standard on other information. Better coordination with the PCAOB would help minimize any unnecessary differences and simplify the policies and procedures auditors would need to adopt in the US to comply with the auditing standards of both the American Institute of Certified Public Accountants (AICPA) and the PCAOB.

If the Board concludes that changes can't be postponed, we believe our recommendations, which are similar to those the Center for Audit Quality provided to the PCAOB on its 2013 proposed standard on other information, are more operable, which would result in more consistent application of the standard by auditors and provide more transparency in the auditor's report for users of the financial statements.

#### **Differences with requirements for exempt offering documents**

We observe that the proposed SAS would impose responsibilities on the auditor for other information that are different from those imposed on the auditor under recently issued AU-C 945, *Auditor Involvement with Exempt Offering Documents*. For the reasons described in Attachment A, we believe having different thresholds to trigger auditor involvement with exempt offering documents versus other information included in annual reports, and different requirements for considering subsequent events and subsequently discovered facts, may not be in the public interest and recommend the Board consider reconciling these differences.

#### **Proposed definition of misstatement of the other information**

We don't support the Board's proposal to broaden the auditor's responsibilities by introducing the term "misstatement of the other information" to AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*.

Under the proposed SAS, a misstatement of other information would exist "when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information)."<sup>1</sup> Determining what may be "misleading" to a reader or what may be "necessary for a proper understanding of a matter disclosed in the other information" would be inherently subjective and it would be difficult for auditors to understand how they would be expected to demonstrate compliance. We recognize that similar language has already been adopted in many foreign jurisdictions, but we don't believe the proposed SAS is sufficiently clear and operable for practitioners in the US, given our unique legal environment.

We recommend that the ASB use the existing definitions of "inconsistency" and "misstatement of fact" and add language to make it clear that the term "inconsistency" is associated with information

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<sup>1</sup> Proposed AU-C 720.12.

directly related to the financial statements and “misstatement of fact” is associated with information not directly related to the financial statements, rather than introduce vague new terms.

### **Performance responsibilities and documentation requirements**

We support the Board’s goal to clarify and codify the auditor’s performance responsibilities related to other information. However, we don’t believe the proposal is sufficiently clear about what the auditor would have to do.

For example, we recognize that auditors must use knowledge gained during the audit when considering whether they are aware of a misstatement of the other information included in the annual report. However, the proposed SAS doesn’t sufficiently prescribe the nature and extent of procedures to be performed or the extent of documentation that would be required to evidence the auditor’s fulfillment of the performance responsibilities related to these considerations. We believe the recommendations we provide in this letter would help focus the auditor’s documentation efforts by more clearly articulating the auditor’s performance responsibilities that go beyond reading the other information.

### **Procedures for other information directly and not directly related to the audited financial statements**

We believe the ASB should revise the proposed requirements to make a clearer distinction between the performance requirements related to the other information that is directly related to the audited financial statements and the other information that is not. The risk is that auditors may not have the expertise to assess the validity of the other information that is not directly related to the audited financial statements.

As described in our response to Issue 3 in Attachment A, we recommend that the ASB require the auditor to perform certain procedures to compare the other information directly related to the financial statements included in the annual report to the audited financial statements, which would include information derived from the accounting records that support the audited financial statements, and to check the mathematical accuracy of the other information directly related to the financial statements.

With respect to other information not directly related to the audited financial statements, we believe the auditor’s performance responsibilities should be consistent with existing requirements in AU-C 720.16 and should be limited to reading the other information and responding accordingly if, based on knowledge gained during the course of the audit, the auditor becomes aware of any potential material misstatements of fact.

### **Use of the term ‘evaluate’**

We don’t support the ASB’s proposal to use the term “evaluate” in the performance requirements in proposed paragraphs 15a, A29, A31 and A34 because that is the term the auditing standards use to describe the procedures the auditor performs in reaching and supporting the audit opinion (i.e., a reasonable assurance performance standard). We believe that using the term “evaluate” in the context of other information in annual reports may imply that the auditor is obtaining reasonable assurance with respect to this information.

### **Communicating the auditor's responsibilities**

We support clarifying the auditor's responsibilities related to other information that is communicated to users of the financial statements, but we are concerned the proposed statement that the auditor's responsibility is to "read the other information and 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" is too vague. If the Board agrees with the performance requirements we recommend, we believe the Board should require the auditor to describe the procedures performed in the auditor's report and explain that those procedures do not constitute an audit or a review of the other information.

In addition, we don't support the inclusion of a separate section in the auditor's report addressing other information when the auditor has obtained some, but not all, of the other information to be included in the annual report.<sup>2</sup> As explained in our response to Issue 5 in Attachment A, we believe the proposed reporting requirement would not improve the informative value of the auditor's report and could potentially mislead users of the report.

We believe our recommendations would more clearly communicate the auditor's responsibilities regarding other information. They would also help mitigate the risk that investors or other financial statement users would infer that the auditor has a greater responsibility for the other information than is required by the proposed SAS.

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Attachment A includes both our responses to the ASB's request for comment and additional recommendations. Attachment B includes our recommended edits to the proposed SAS. We would be pleased to discuss our comments with members of the ASB or its staff.

Very truly yours,



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<sup>2</sup> Proposed AU-C 720.22.

## Attachment A

### Responses to specific matters on which the ASB is seeking comment

***Issue 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 believe the proposed revisions clarify the scope of the documents required to be subjected to the auditor’s procedures. However, we believe the proposed SAS should be further clarified to make clear when the auditor has responsibility to read the other information included in the client’s annual report and fulfill his or her responsibilities in the proposed SAS. For example, the last sentence in proposed paragraph .A1 states that there may be circumstances at the date of the auditor’s report that “if the auditor is unable to ascertain the purpose of such a document or whether it will be issued, the document is not considered other information for purposes of this proposed SAS.” This could be interpreted to mean that the auditor has no responsibility with respect to any of the other information included in a client’s annual report. In contrast, proposed paragraph .13 could be interpreted that the auditor is required to actively determine whether other information will be prepared and to obtain it even after the auditor’s report date. Proposed paragraph .6 also implies the auditor always has some responsibility with respect to the other information because it states the auditor’s responsibilities apply “regardless of whether the other information is obtained by the auditor prior to or after the date of the auditor’s report.”

We also observe the proposed SAS has a different threshold for triggering auditor involvement than the recently issued AU-C 945. Under AU-C 945 the auditor is considered involved with an exempt offering document and is expected to apply the requirements of that SAS when the auditor’s report is included in the exempt offering document and the auditor performs one or more specified activities at the request of the reporting entity or another party.<sup>3</sup> As a result, it’s possible for an entity to issue an exempt offering document that includes or incorporates the auditor’s report without requiring the auditor to perform any procedures. Although exempt offering documents may serve a different purpose than an annual report, we believe they contain similar information.<sup>4</sup>

We believe having thresholds to trigger auditor involvement in exempt offering documents that are different from those for other information included in annual reports may not be in the public’s interest. It’s also not clear why there would be different responsibilities for performing procedures related to subsequent events and subsequently discovered facts under AU-C 945 and the proposed SAS when documents are made available after the auditor’s report is issued. Accordingly, we recommend the Board consider reconciling these triggers for involvement and align the procedures to identify subsequent events.

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<sup>3</sup> AU-C 945.8.

<sup>4</sup> AU-C 945.5 and proposed AU-C 720.12.

***Issue 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 requirements achieve the intent that both management and the auditor understand what documents constitute the entity’s annual report.

***Issue 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?***

We support the ASB’s efforts to clarify the auditor’s responsibilities with respect to other information included in annual reports. However, we believe the ASB should revise and clarify aspects of the proposal to make it more operable and promote consistent application by auditors.

Under the proposed SAS, a misstatement of other information exists “when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).” As previously stated, we believe the concept of “misleading” in the definition of “misstatement of other information” would be subject to interpretation, and the proposed application guidance with respect to the auditor’s consideration of omitted or obscured information is not clear about what an auditor would have to do to comply with this requirement.

We recognize that similar language has already been adopted in many foreign jurisdictions, but we don’t believe the proposed SAS is sufficiently clear and operable, given the legal environment in the US.

We also note that auditors may not have the expertise to assess the validity of certain statements that are not directly related to the audited financial statements, and this would make it more difficult for auditors to comply with the proposed performance responsibilities.

Given these concerns, we recommend that the ASB use the existing definitions of “misstatement of fact” and “inconsistency” and add language to make it clear “misstatement of fact” is associated with information not directly related to the financial statements and “inconsistency” is associated with information directly related to the financial statements, which make a clearer distinction between the auditor’s responsibilities with respect to the two types of other information included in the annual report. We believe the proposed application guidance in paragraph .A14 for assessing the materiality of other information would be a useful addition to help the auditor consider whether a material misstatement of fact or inconsistency exists.

We recognize that introducing the concept of “misleading” into AU-C 720 would better align generally accepted auditing standards with ISA (Revised), 720, *The Auditor’s Responsibilities Relating to Other Information*. But we also observe that the AICPA’s Professional Code of Conduct uses the term more narrowly than the International Ethics Standards Board for Accountants (IESBA) Code of Ethics. Paragraph 110.2 of the IESBA Code of Ethics states that “a professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information furnished recklessly; or
- (c) Omits or obscures information required to be included where such omission or obscurity would be misleading.”

In contrast, the AICPA’s Integrity and Objectivity Rule<sup>5</sup> and Acts Discreditable Rule<sup>6</sup> uses the term “misleading” only in the context of an auditor’s association with financial statements and records. Accordingly, if the ASB proceeds with its proposed definition of material misstatement, which includes the use of the term “misleading,” we recommend that the Board also consider the need for conforming amendments to the AICPA’s Professional Code of Conduct.

### **Recommended limited procedures**

Because auditors may not have the expertise to assess the validity of certain statements included in annual reports that are not directly related to the audited financial statements, we believe any final SAS adopted by the ASB should make a clearer distinction between the performance requirements as to other information that is directly related to the audited financial statements and the performance requirements as to other information that is not.

The auditor should read the other information included in the annual report in its entirety, and with respect to material other information directly related to the audited financial statements, we recommend that any final SAS adopted by the ASB require the auditor to:

- ▶ Compare the amounts in the other information that are the same as or provide greater detail about the amounts in the financial statements and their presentation with (1) the amounts in the audited financial statements or (2) the amounts in accounting records that are subject to the audit or amounts that have been derived directly from such accounting records by analysis or computation
- ▶ Compare qualitative statements that represent or provide greater detail about information in the financial statements to (1) the audited financial statements or (2) accounting records that are subject to the audit or have been derived directly from such accounting records by analysis or computation

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<sup>5</sup> AICPA Code of Professional Conduct 1.130.010, *Knowing Misrepresentations in the Preparation of Financial Statements or Records*.

<sup>6</sup> AICPA Code of Professional Conduct 1.400.040, *Negligence in the Preparation of Financial Statements or Records*.

- ▶ Recalculate the amounts in the other information that are calculated using amounts in (1) the other information, (2) the audited financial statements or (3) accounting records that are subject to the audit or have been derived directly from such accounting records by analysis or computation

While reading the other information, the auditor should remain alert for indications that the other information not related to the financial statements appears to contain a material misstatement of fact, based on knowledge obtained during the audit.

If, based on the procedures performed, the auditor becomes aware of a potential material inconsistency with the audited financial statements, a potential material misstatement of fact in the other information or both, the auditor should discuss the matter with management, and if necessary perform procedures to conclude whether a material inconsistency or material misstatement of fact of the other information exists, whether a material misstatement of the financial statements exists, or whether the auditor's understanding of the entity and its environment needs to be updated.

We believe requiring the auditor to perform these procedures would reduce the amount of auditor judgment required and would promote consistency in the nature and extent of procedures performed by auditors.

#### **Use of the term 'evaluate'**

As stated in our cover letter, we don't support the use of the term "evaluate" in the proposed performance requirements in paragraphs 15a, A29, A31 and A34 because the auditing standards use that term to describe the procedures the auditor performs in reaching and supporting the audit opinion (i.e., a reasonable assurance performance standard). We believe that using the term "evaluate," in the context the ASB has proposed, may imply that the auditor is obtaining reasonable assurance with respect to other information in annual reports. As illustrated in our recommended procedures, we don't believe use of the term is necessary to convey what we believe to be the intended performance requirement. If the Board proceeds with its proposal, we strongly recommend the following edits to the proposed requirements:

- ▶ Proposed paragraph 15a: Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor should, ~~to evaluate their consistency,~~ compare selected amounts or other items in the other information (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.
- ▶ Proposed paragraph A29, third bullet: The degree of judgment involved in addressing the requirements of paragraphs 15-16; for example, performing procedures to ~~evaluate the consistency of compare~~ amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members.
- ▶ Proposed paragraph A31: In ~~evaluating the consistency of comparing~~ selected amounts or other items in the other information with the financial statements, the auditor is not required to compare all amounts or other items in the other information 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.

- ▶ Proposed paragraph A34: ~~Evaluating the consistency of~~ Comparing selected amounts or other items in the other information with the financial statements includes, when relevant given the nature of the other information, the manner of their presentation compared to the financial statements.

***Issue 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?***

We support the ASB’s efforts to clarify the group auditor’s responsibilities for other information included in the annual report. However, we believe the proposed application guidance needs further clarification to appropriately address these situations. If the Board proceeds with its proposed SAS instead of our recommended procedures described in Attachment B, we believe the following edits would improve the clarity of the proposed guidance. With respect to proposed paragraph .A38 we recommend the following edit:

- ▶ In the case of a group audit, though the group auditor is required to read the entirety of the other information if, in accordance with paragraph .24 of AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, the group auditor decides to make reference to a component auditor in the auditor’s report on the group financial statements, the group auditor’s knowledge is limited to ~~does not extend beyond~~ that obtained by the group auditor while performing the procedures required by paragraph .27 of AU-C section 600 during the audit of the group financial statements.

In addition, we recommend the last sentence of proposed paragraph .A42 be modified as illustrated below because as written it could be read to imply there may be additional work required when the group auditor references the component auditor for a significant component of the group financial statements:

- ▶ A42. Whether, and if so the extent to which, the auditor refers to relevant audit documentation or makes inquiries of relevant members of the engagement team or relevant component auditors is a matter of professional judgment. However, it may not be necessary for the auditor to refer to relevant audit documentation or to make inquiries of relevant members of the engagement team or relevant component auditors about any matter included in the other information. This may be the case, for example, when the group auditor decides to make reference to a component auditor in the auditor’s report in accordance with paragraph .24 of AU-C section 600 ~~and the group auditor has obtained sufficient knowledge in connection with the group audit about matters in the other information relating to a significant component.~~

***Issue 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 support the ASB’s efforts to make the auditor’s work effort more transparent by describing those responsibilities in the auditor’s report. But as stated in our cover letter, we don’t believe the proposed standard achieves this objective. We believe there will limited instances where non-issuers will prepare and provide the auditor with the other information prior to the issuance of the auditor’s report. As a result, the auditor would not be required to include the related section describing those responsibilities in the auditor’s report.

In addition, we don't support the inclusion of a separate section in the auditor's report addressing other information when the auditor has obtained some, but not all, of the other information to be included in the annual report.<sup>7</sup> We don't believe the proposed reporting requirement would improve the informative value of the auditor's report. In fact, we believe including such communications in the auditor's report could be misleading to users of the financial statements. The application guidance in proposed paragraph .A59 indicates the auditor could consider identifying other information it expects to obtain after the date of the auditor's report. We believe it's potentially misleading to communicate procedures that may possibly be performed on information yet to be obtained without requiring the auditor to later communicate whether the remaining other information was in fact obtained and whether the auditor was able to fulfill his or her remaining responsibilities with respect to that other information. As a result, we recommend the auditor only include a section in the auditor's report addressing other information when "all" of the other information is obtained by the auditor prior to release of the auditor's report. We believe our recommendation would reduce the risk of inappropriate inferences by users about the extent of procedures performed or findings, especially in those instances when the entity releases its annual report without sharing an advance copy with its auditors.

Notwithstanding the limited circumstances under which a separate section addressing other information would be included in the auditor's report, we support the Board's efforts to narrow existing expectation gaps by requiring auditors to articulate in their reports their responsibilities under the proposed SAS and the outcome of their work relative to the other information.

However, we believe the reporting recommendations described below would more clearly communicate the auditor's responsibilities regarding other information. They would also help mitigate the risk that investors or other financial statement users would infer that the auditor has a greater responsibility for the other information than is required by the proposed SAS.

In the context of our recommended procedures, we believe the auditor's report should:

- ▶ State that management is responsible for the other information
- ▶ Identify the annual report that contains the other information
- ▶ Indicate that the auditor's opinion does not cover the other information
- ▶ Describe the auditor's responsibilities related to other information by including:
  - ▶ A statement that the auditor's responsibility is to read and perform certain limited procedures on the other information
  - ▶ A statement that in the event the auditor becomes aware that the other information contains a material inconsistency with the audited financial statements or a material misstatement of fact in the other information, or both, that has not been appropriately revised, the auditor is required to describe the inconsistency or misstatement, or both, in the audit report

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<sup>7</sup> Proposed AU-C 720.22.

- ▶ A statement that the auditor is not responsible for searching for omitted information or for the completeness of the other information presented in the entity's annual report
  - ▶ A statement that the limited procedures do not constitute an audit or review of the other information
  - ▶ A description of the limited procedures performed on other information directly related to the financial statements
  - ▶ A statement that the procedures performed on other information unrelated to matters appearing in the financial statements are limited to reading the other information and, based on knowledge obtained in the audit of the financial statements, remaining alert for indications that the other information is materially and incorrectly stated or presented
- ▶ Include either a statement that the auditor has nothing to report or include a description of the uncorrected material inconsistency or material misstatement of fact

Including these communications in the auditor's report would clarify the auditor's responsibilities and help users of the financial statements understand those responsibilities. It would also help mitigate the risk that investors or other financial statement users would infer that the auditor has a greater responsibility for the other information than is required by the proposed standard. Refer to Attachment B for recommendations on the illustrative sections in the auditor's report related to other information.

We also recommend that the ASB include additional application guidance that states that because (1) the auditor generally does not have and is not required to have the expertise to evaluate whether other information unrelated to the financial statements is materially misstated, (2) the nature and extent of the procedures required to be performed under this proposed SAS are limited and (3) there aren't any generally recognized standards or frameworks available to assess the presentation of other information prepared by management, the auditor is unable to provide any form of assurance on the other information presented in the entity's annual report.

We recognize that the proposed SAS does not prescribe the location of the Other Information (OI) section in the auditor's report. However, we observe that the example auditor reports in the Board's separate proposed SAS on auditor reporting present the OI section in the middle of the auditor's report, just before the Responsibilities of Management section.

Given the limited procedures performed on the OI and that such procedures don't constitute an audit, we believe the auditor's discussion of OI should be presented at the end of the auditor's report. We recognize that the proposed requirement to use a separate section title would help users understand the difference between the auditor's association with the financial statements from the other information. But requiring the OI section to be as far away as possible from the sections describing the auditor's opinion on the financial statements and the basis for that opinion would underscore the fact that the auditor isn't providing any assurance with respect to the OI. Additionally, prescribing the location of the OI section in the auditor's report would make reporting more consistent.

**Proposed effective date**

We don't believe the proposed effective date for audits of financial statements for periods beginning on or after 15 June 2019 provides sufficient time for auditors to implement a new SAS. To allow audit firms sufficient time to train their personnel, update their policies and systems of quality control, and determine that management understands what it is expected to do, we believe the effective date should be no earlier than for audits of financial reporting periods beginning after 15 December 2019 (i.e., 2020 for calendar-year-end reporting entities).

**Proposed Revised AU-C section 720, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports***

ISA 720 (Revised) used as base.<sup>1</sup>

<b>Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs</b>	<b>Application and Other Explanatory Material</b>
<b>Introduction</b>	
<b>Scope of This Proposed SAS</b>	<b>Scope of This Proposed SAS</b> (Ref: par. 1–2 and 9)
<p><b>1.</b> This proposed Statement on Auditing Standards (SAS) addresses the auditor's responsibilities relating to other information, whether financial or nonfinancial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose. (Ref: par. A1)</p>	<p><b>A1.</b> There may be circumstances in which, at the date of the auditor's report, the entity is considering the development of a document that may constitute or may be part of the entity's annual report (for example, a voluntary report to stakeholders) but management is unable to confirm to the auditor the purpose of such a document. If the auditor is unable to ascertain the purpose of such a document or whether it will be issued, the document is not considered other information for purposes of this proposed SAS.</p>
<p><b>2.</b> This proposed SAS also may be applied, adapted as necessary in the circumstances, to other documents to which the auditor, at management's request, devotes attention. (Ref: par. A2–A4)</p>	<p><b>A2.</b> 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</p>

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Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs	Application and Other Explanatory Material
	<p>requirements regarding reporting, are applicable, adapted as necessary in the circumstances.</p> <p><b>A3.</b> Other AU-C sections provide requirements and guidance with respect to information in certain documents other than annual reports. For example, AU-C section 945, <i>Auditor Involvement With Exempt Offering Documents</i>.</p> <p><b>A4.</b> This proposed SAS also addresses other information for which a designated accounting standard setter<sup>1</sup> has issued standards or guidance regarding the format to be used and content to be included when such information is voluntarily presented in an annual report—for example, GASB Statement No. 44, <i>Economic Condition Reporting: The Statistical Section</i>.</p> <p><sup>1</sup> <i>Designated accounting standards setter</i> is defined in paragraph .04 of AU-C section 730, <i>Required Supplementary Information</i>.</p>
<p><b>3.</b> This proposed SAS is written in the context of an audit of financial statements by an independent auditor. Accordingly, the objectives of the auditor in this proposed SAS are to be understood in the context of the overall objectives of the auditor as stated in paragraph .12 of AU-C section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards</i>. The requirements in the standards are designed to enable the auditor to achieve the objectives specified in the standards, and thereby the overall objectives of the auditor. The auditor’s opinion on the financial statements does not</p>	

Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs	Application and Other Explanatory Material
<p>cover the other information, nor does this proposed SAS require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.</p>	
<p>4. This proposed SAS requires the auditor to read and <del>consider</del><u>perform certain limited procedures on</u> the other information <del>because other</del><u>included in the annual report. Other</u> information that is <del>materially inconsistent with</del><u>directly related to</u> the financial statements <del>or the auditor's knowledge obtained</del><u>that conflicts with information contained</u> in the <del>audit</del><u>financial statements and other information that is not directly related to the financial statements that is incorrectly stated or presented</u> may indicate that there is a material misstatement of the financial statements or that a material misstatement of <u>fact exists in</u> the other information <del>exists, either of which.</del> <u>Material inconsistencies between the other information and the financial statements or material misstatements of fact in the other information</u> may undermine the credibility of the financial statements and the auditor's report thereon. <del>Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.</del></p>	
<p>5. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail about amounts or other items in the financial statements and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may also include other matters.</p>	
<p><del>6.6.</del> <u>The requirements of this proposed SAS apply when the auditor is aware that the auditor's report on the financial statements will be included</u></p>	

Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs	Application and Other Explanatory Material
<p><u>in the entity's annual report with the other information.</u> The auditor's responsibilities relating to other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to or after the date of the auditor's report.</p>	
<p>7. The <del>auditor's responsibilities</del> <u>auditor would not be responsible</u> under this proposed SAS <del>do not constitute an assurance engagement on other information or impose an obligation on</del> <u>for performing</u> the <del>auditor to obtain assurance about</del> <u>type of procedures or reaching the type of opinion or conclusion the auditor would reach in an audit or review of</u> the other information.</p>	
<p>8. Law or regulation may impose additional obligations on the auditor in relation to other information that are beyond the scope of this proposed SAS.</p>	
<p>9. This proposed SAS does not apply to <del>supplemental</del> <u>supplementary</u> information addressed by AU-C section 725, <i>Supplementary Information in Relation to the Financial Statements as a Whole</i>, or required supplementary information addressed by AU-C section 730, <i>Required Supplementary Information</i>. (Ref: par. A3)</p>	
<p><b>Effective Date</b></p>	

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<p><b>10.</b> This proposed SAS will be effective for audits of financial statements for periods beginning on or after <del>June</del><u>December</u> 15, 2019.* Early implementation is not permitted.</p> <p>*This proposed effective date is provisional but will not be earlier than June 15, 2019.</p>	
<p><b>Objectives</b></p>	
<p><b>11.</b> The objectives of the auditor, having read the other information, are as follows:</p> <p><del>a.</del><u>To perform certain limited procedures on other information described in paragraphs 15 and 16 below and determine whether <del>there</del>he or she is aware of (1) a material inconsistency between <u>either the amounts in</u> the other information and the financial statements</u></p> <p><del>b.a.</del><u>To consider whether there is or their presentation, ( 2) a material inconsistency between <u>misstatement of fact in</u> the other information and the auditor's knowledge obtained in the audit</u> <u>or (3) both,</u></p> <p><del>e.b.</del><u>To respond appropriately when the auditor identifies or becomes aware that such material inconsistencies or material misstatements of fact appear to exist, or when that could undermine the credibility of the auditor otherwise becomes aware that other information appears to be materially misstated</u> <u>financial statements and the auditor's report thereon.</u></p>	

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<p><del>d.c.</del> To report in accordance with this proposed SAS</p>	
Definitions	Definitions
<p><b>12.</b> For purposes of the auditing standards, the following terms have the meanings attributed below:</p> <p><b>Annual report.</b> 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. (Ref: par. A5–A11)</p>	<p><i>Annual Report</i> (Ref: par. 12)</p> <p><b>A5.</b> Law, regulation, or custom may define the content of an annual report and the name by which it is to be referred.</p> <p><b>A6.</b> An annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements.</p> <p><b>A7.</b> In some cases, an entity’s annual report may be a single document and referred to by the title “Annual Report” or by some other title. In other cases, law, regulation, or custom may require the entity to report to owners (or similar stakeholders) information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements (that is, an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose.</p>

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	<p><b>A8.</b> An annual report may be made available to users in printed form, or electronically, including on the entity’s website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.</p> <p><b>A9.</b> An annual report is different in nature, purpose, and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as stand-alone documents, are not typically part of the combination of documents that make up an annual report (subject to law, regulation, or custom), and that, therefore, are not other information within the scope of this proposed SAS, include the following:</p> <ul style="list-style-type: none"> <li>• IRS Form 990, <i>Return of Organization Exempt From Income Tax</i></li> <li>• IRS Form 5500, <i>Annual Return/Report of Employee Benefit Plan</i></li> <li>• Annual statement filed with National Association of Insurance Commissioners</li> <li>• Separate industry or regulatory reports (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and pension industries</li> <li>• Corporate social responsibility reports</li> <li>• Sustainability reports</li> <li>• Diversity and equal opportunity reports</li> <li>• Product responsibility reports</li> <li>• Labor practices and working conditions reports</li> <li>• Human rights reports</li> </ul>

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<p><del><b>Misstatement of the other</b></del><u><b>Inconsistency.</b></u> <del>Other information. A misstatement of the other</del> <u>directly related to the financial statements that conflicts with information exists when the other contained in the financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.</u></p> <p><u><b>Misstatement of fact.</b></u> <del>Other information that is not directly related to matters appearing in the financial statements that</del> is incorrectly stated or <del>otherwise misleading (including because it omits or obscures information necessary for a proper understanding presented. A material misstatement of fact may undermine the credibility of a matter disclosed in the other information);</del> <u>the document containing the audited financial statements.</u> (Ref: par. A12–<del>A14</del><u>A13</u>)</p>	<p><b>A10.</b> Though a document may be referred to as an annual report, such document may not meet the definition of an annual report for purposes of this proposed SAS.</p> <p><i>Considerations Specific to Governmental Entities</i></p> <p><b>A11.</b> The term <i>annual reports of governments</i> is intended to include comprehensive annual financial reports or other annual financial reports that include the government's financial statements and the auditor's report thereon.</p> <p><del>Misstatement</del><u>Material inconsistency or misstatement</u> of <del>the Other Information</del><u>fact</u> (Ref: par. 12)</p> <p><b>A12.</b> <del>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.</del> The auditor is not responsible for searching for omitted information or for the completeness of the other information.</p> <p><b>A13.</b> <del>Other information may be undermined by the inclusion of information that is not relevant or that obscures a proper understanding of the matters disclosed.</del></p> <p><b>A14.</b> The concept of materiality may be discussed in a framework applicable to the other information and, if so, such a framework may provide</p>

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	<p>a frame of reference for the auditor in making judgments about materiality under this proposed SAS. In many cases, however, there may be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such circumstances, the following characteristics provide the auditor with a frame of reference in determining if a misstatement of <del>the other information</del> <u>fact</u> is material:</p> <ul style="list-style-type: none"> <li>• Materiality is considered in the context of the common information needs of users as a group. The users of the other information are expected to be the same as the users of the financial statements because such users may be expected to read the other information to provide context to the financial statements.</li> <li>• Judgments about materiality take into account the specific circumstances of the misstatement <u>of fact</u>, considering whether users would be influenced by the effect of the uncorrected misstatement. Not all misstatements will influence the economic decisions of users.</li> <li>• Judgments about materiality involve both qualitative and quantitative considerations. Accordingly, such judgments may take into account the nature or magnitude of the items that the other information addresses in the context of the entity's annual report.</li> </ul> <p><i>Other Information</i> (Ref: par. 12)</p> <p><b>A15A14.</b> The following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive:</p>

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<p><b>Other information.</b> Financial or nonfinancial information (other than financial statements and the auditor’s report thereon) included in an entity’s annual report. (Ref: par. <a href="#">A15A14</a>)</p>	<ul style="list-style-type: none"> <li>• Management report, management <del>commentary</del><a href="#">discussion and analysis</a>, or operating and financial review or similar reports by those charged with governance (for example, a directors’ report)</li> <li>• Chairman’s statement</li> <li>• Corporate governance statement</li> <li>• Management’s internal control and risk assessment reports</li> <li>• Financial summaries or highlights</li> <li>• Employment data</li> <li>• Planned capital expenditures</li> <li>• Financial ratios</li> <li>• Names of officers and directors</li> <li>• Selected quarterly data</li> </ul>
<p><b>Requirements</b></p>	
<p><b>Obtaining the Other Information</b></p>	<p><b>Obtaining the Other Information</b> (Ref: par. 13–14)</p>
<p><b>13.</b> The auditor should do the following: (Ref: par. <a href="#">A16A15</a>–A26)</p> <p><i>a.</i> Determine, through discussion with management, and obtain management’s written acknowledgment regarding, which document or documents compose the annual report, and the entity’s planned manner and timing of the issuance of such documents.</p> <p><i>b.</i> Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor’s</p>	<p><b>A16A15.</b> Determining the document or documents that make up the annual report <del>is often</del><a href="#">may be</a> clear based on law, regulation, or custom. In many cases, management or those charged with governance may have customarily issued a package of documents that together make up the annual report, or may have committed to do so. In some cases, it may not be clear which documents make up the annual report. In such cases, the timing and purpose of the documents (and for whom they are intended) are matters that may be relevant to the auditor’s determination of which documents are the annual report.</p>

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<p>report, the final version of the document or documents composing the annual report.</p>	<p><b>A17A16.</b> Management’s written acknowledgment of the documents that constitute the annual report 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.</p> <p><b>A18A17.</b> Management, or those charged with governance, is responsible for preparing the annual report. The auditor may communicate the following to management or those charged with governance:</p> <ul style="list-style-type: none"> <li>• The auditor’s expectations in relation to obtaining the final version of the annual report (including a combination of documents that together make up the annual report) in a timely manner prior to the date of the auditor’s report such that the auditor can complete the procedures required by this proposed SAS before the date of the auditor’s report, or if that is not possible, as soon as practicable and in any case prior to the entity’s issuance of such information</li> <li>• The possible implications when the other information is obtained after the date of the auditor’s report</li> </ul> <p><b>A19A18.</b> The communications referred to in paragraph A18 may be particularly appropriate in the following instances:</p> <ul style="list-style-type: none"> <li>• In an initial audit engagement</li> <li>• When there has been a change in management or those charged with governance</li> <li>• When other information is expected to be obtained after the date of the auditor’s report</li> </ul>

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	<p><b>A20A19.</b> When those charged with governance are to approve the other information prior to its issuance by the entity, the final version of such other information is the version that has been approved by those charged with governance for issuance.</p> <p><b>A21A20.</b> In some cases, the entity’s annual report may be a single document to be released, in accordance with law or regulation or the entity’s reporting practice, shortly after the entity’s financial reporting period such that it is available to the auditor prior to the date of the auditor’s report. In other cases, such a document may not be required to be released until a later time, or at a time of the entity’s choosing. There may also be circumstances in which the entity’s annual report is a combination of documents, each subject to different requirements or reporting practice by the entity with respect to the timing of their release.</p> <p><b>A22A21.</b> Obtaining the other information in a timely manner prior to the date of the auditor’s report enables any revisions that are found to be necessary to the financial statements, the auditor’s report, or the other information prior to their issuance. The audit engagement letter<sup>2</sup> may make reference to an agreement with management to make available to the auditor the other information in a timely manner, and if possible prior to the date of the auditor’s report.</p> <p><sup>2</sup> Paragraph .23 of AU-C section 210, <i>Terms of Engagement</i>.</p> <p><b>A23A22.</b> When other information is made available to users only via the entity’s website, the version of the other information obtained from the entity, rather than directly from the entity’s website, is the relevant document on which the auditor would perform procedures in accordance with this proposed SAS. The auditor has no responsibility in accordance</p>

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<p>c. <u>    </u> 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. <del>A24–A25–A26</del>)</p>	<p>with this proposed SAS to search for other information, including other information that may be on the entity’s website, nor to perform any procedures to confirm that other information is appropriately displayed on the entity’s website or otherwise has been appropriately transmitted or displayed electronically.</p> <p><del>A24</del><u>A23</u>. The auditor is not precluded from dating or issuing the auditor’s report if the auditor has not obtained some or all of the other information.</p> <p><del>A25</del><u>A24</u>. When the other information is obtained after the date of the auditor’s report, the auditor is not required to update the procedures performed in accordance with paragraphs .09–.11 of AU-C section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>.</p> <p><del>A26</del><u>A25</u>. AU-C section 580, <i>Written Representations</i>, establishes requirements and provides guidance on the use of written representations. The written representation regarding other information that will be available only after the date of the auditor’s report is intended to support the auditor’s ability to complete the procedures required by this proposed SAS with respect to such information. In addition, the auditor may find it useful to request other written representations, such as the following:</p> <ul style="list-style-type: none"> <li>• That management has informed the auditor of all the documents that it expects to issue that may be other information</li> <li>• That the financial statements and any other information obtained by the auditor prior to the date of the auditor’s report are consistent with one another, and the other information does not contain any material misstatements</li> </ul>

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<p>14. If the auditor becomes aware that the entity did not provide the auditor with the final version of documents determined in accordance with paragraph 13a to be part of the annual report prior to the issuance of those documents to third parties, the auditor should take appropriate action. (Ref: par. <del>A27</del><u>A26</u>)</p>	<ul style="list-style-type: none"> <li>• With regard to other information that has not been obtained by the auditor prior to the date of the auditor’s report, that management intends to prepare and issue such other information and the expected timing of such issuance</li> </ul> <p><del>A27</del><u>A26</u>. In accordance with paragraph 14, appropriate actions that the auditor may take include these:</p> <ul style="list-style-type: none"> <li>• Obtaining those documents from management and performing the procedures required by this proposed SAS as soon as practicable</li> <li>• Communicating the matter to those charged with governance, if applicable</li> <li>• Considering the need to obtain legal advice</li> </ul>
<p>Reading and <del>Considering the</del><u>Performing Certain Limited Procedures on Material</u> Other Information</p>	<p>Reading and <del>Considering the</del><u>Performing Certain Limited Procedures on Material</u> Other Information (Ref: par. 15)</p>
<p>15. The auditor should read the other information and <del>do</del><u>perform</u> the following: (Ref: par. <del>A28</del>–<del>A29</del>)</p>	<p><del>A28</del><u>Performing Certain Limited Procedures on Other Information Directly Related to the Financial Statements</u> (Ref: par. 15)</p> <p><u>A27</u>. Paragraph .17 of AU-C section 200 requires the auditor to plan and perform the audit with professional skepticism. Maintaining professional skepticism when reading <del>and considering</del> the other information includes, for example, recognizing that management may be overly optimistic about the success of its plans, and <del>being</del>, <u>based on the auditor’s knowledge obtained in the audit, remaining</u> alert to information that may be inconsistent with the <u>audited</u> financial statements <del>or the auditor’s</del></p>

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	<p><del>knowledge obtained in the audit</del> <u>and to facts that may be materially misstated.</u></p> <p><del>A29</del><u>A28</u>. In accordance with AU-C section 220,<sup>3</sup> the engagement partner is required to take responsibility for the direction, supervision, and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this proposed SAS, factors that may be considered when determining the appropriate engagement team members to address the requirements of paragraphs 15–16 include these:</p> <ul style="list-style-type: none"> <li>• The relative experience of engagement team members</li> <li>• Whether the engagement team members have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and <del>that knowledge</del> <u>the financial statements and to remain alert for material misstatements of fact</u></li> <li>• The degree of judgment involved in addressing the requirements of paragraphs 15–16; for example, <del>performing procedures to evaluate the consistency of</del> <u>less-experienced engagement team members may compare</u> amounts in the other information <del>that are intended to be the same as</del> <u>with</u> amounts in <u>in</u> the <u>audited</u> financial statements <del>may be carried out by less-experienced engagement team members</del></li> <li>• Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component</li> </ul> <p><sup>3</sup> Paragraph .17a of AU-C section 220, <i>Quality Control for an Engagement Performed in Accordance With Generally Accepted Auditing Standards</i></p>

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<p><del>Consider whether there is a limited procedures on the material inconsistency between the other information and that is directly related to the audited financial statements. As: (Ref: par. A27–A33)</del></p>	<p><del>Considering Whether There is a Material Inconsistency between the Other Information and the Financial Statements (Ref: par. 15a)</del></p> <p><del><b>A30A29.</b> Other information may include amounts or other items 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. Examples of such amounts or other items may include the following:</del></p> <ul style="list-style-type: none"> <li><del>• Tables, charts, or graphs containing extracts of the financial statements</del></li> <li><del>• A disclosure providing greater detail about a balance or account shown in the financial statements, such as “Revenue for 20X1 was XXX million from product X and YYY million from product Y”</del></li> <li><del>• Descriptions of the financial results, such as “Total research and development expense was XXX in 20X1”</del></li> </ul> <p><del><b>A30. Comparing</b></del><del><b>A31. In evaluating the consistency of</b></del> selected amounts or other items in the other information with the <u>audited</u> financial statements, <del>the auditor is not required to compare all amounts or other items in</del> <u>includes, when relevant given the nature of</u> the other information <del>that are intended to be,</del> the <u>manner of their presentation.</u></p> <p><del><b>A31. same as, to summarize, or to provide greater detail about</b></del><u>Selecting</u> the <del>amounts or</del><u>material</u> other <del>items in</del><u>information directly related to</u> the financial statements, <del>with such amounts or other items in the financial statements.</del></p>

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<p><del>a. Compare the basis for this consideration, the auditor should, to evaluate their consistency, compare selected amounts or other items in the other information (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) and their presentation with such (1) the amounts or other items in the audited financial statements. (Ref: par. A30–A34)</del></p>	<p><del>A32. Selecting the amounts or other items to compare for comparison</del> is a matter of professional judgment. Factors relevant to this judgment include the following:</p> <ul style="list-style-type: none"> <li>• <del>The guidance in AU-C 320 Materiality in planning and performing an audit</del></li> <li>• The significance of the amount or other item in the context in which it is presented, which may affect the importance that users would attach to the amount or other item (for example, a key ratio or amount)</li> <li>• If quantitative, the relative size of the amount compared with accounts or items in the financial statements or the other information to which they relate</li> <li>• The sensitivity of the particular amount or other item in the other information, for example, share-based payments for senior management</li> </ul> <p><del>A33</del><u>A32</u>. Determining the nature and extent of procedures to address the <del>requirement</del><u>requirements</u> in paragraph <del>15</del><u>15</u> is a matter of professional judgment, recognizing that the auditor’s responsibilities under this proposed SAS do not constitute <del>an assurance engagement on the other information or impose an obligation to obtain assurance about the other information</del><u>those for an audit or a review</u>. Examples of such procedures include the following:</p> <ul style="list-style-type: none"> <li>• For information that is intended to be the same as information in the financial statements, comparing the information to the financial statements</li> <li>• For information intended to convey the same meaning as disclosures in the financial statements, comparing the words used and</li> </ul>

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	<p>considering the significance of differences in wording used and whether such differences imply different meanings</p> <ul style="list-style-type: none"> <li>• Obtaining a reconciliation between an amount within the other information and the financial statements from management</li> <li>• Comparing items in the reconciliation to the financial statements and the other information</li> </ul> <p><del>e) Checking whether the calculations within the reconciliation are arithmetically accurate</del></p> <p><del><b>A34.</b> Evaluating the consistency of selected amounts or other items in the other information with the financial statements includes, when relevant given the nature of the other information, the manner of their presentation compared to the financial statements.</del></p> <p><del><i>Considering Whether There Is a Material Inconsistency Between</i></del></p> <p><u><b>A33.</b> In a group audit the engagement partner may decide to make reference to a component auditor in the auditor's report in accordance with paragraph .24 of AU-C section 600, <i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</i>. In these instances the group auditor's responsibility for amounts included in other information directly related to the referenced component's financial statements would be limited to comparing material amounts in the other information related to that component to the component's financial statements obtained and read by the group auditor in accordance with paragraph .27b of AU-C section 600. The group auditor has no responsibility to compare or reconcile amounts included in other information to the underlying accounting records of the referenced component. However, when the group auditor takes responsibility for the</u></p>

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<p><u><del>a. Consider whether there is a material inconsistency between, or (2) the other information and the auditor's knowledge obtained</del> amounts in accounting records that are subject to the audit, or amounts that have been derived directly from such accounting records by analysis or computation.</u></p> <p><u><del>b. Compare qualitative statements that represent, or provide greater detail about, information in the context of audit evidence obtained and conclusions reached</del> financial statements, to (1) the audited financial statements, or (2) accounting records that are subject to the audit or have been derived directly from such accounting records by analysis or computation.</u></p> <p><u><del>c. Recalculate the amounts in the audit. (Ref: par. A35–A42)</del> other information that are calculated using amounts in (1) the other information, (2) the audited financial statements, or (3) accounting records that are subject to the audit, or have been derived directly from such accounting records by analysis or computation.</u></p>	<p><u>work of a component auditor, all of the procedures described in paragraph .15 of this proposed standard would apply.</u></p> <p><u><del>Remaining Alert for Indications That the Other Information and the Auditor's Knowledge Obtained in the Audit</del> <i>Appears to Contain a Material Misstatement of Fact</i> (Ref: par. <del>15b</del>16)</u></p> <p><del><b>A35.</b> Other information may include amounts or items that are related to the auditor's knowledge obtained in the audit (other than those in paragraph 15a). Examples of such amounts or items may include the following:</del></p> <ul style="list-style-type: none"> <li><del>p) A disclosure of the units produced, or a table summarizing such production by geographical region</del></li> <li><del>q) A statement that "the company introduced product X and product Y during the year"</del></li> <li><del>r) A summary of the locations of the entity's major operations, such as "the entity's major center of operation is in country X, and there are also operations in countries Y and Z"</del></li> </ul> <p><del><b>A36</b></del><b>A34.</b> The auditor's knowledge obtained in the audit includes the auditor's understanding of the entity and its environment, including the entity's internal control, obtained in accordance with AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>.<sup>4</sup> AU-C section 315 sets out the auditor's required understanding, which includes such matters as obtaining an understanding of the following:</p> <ul style="list-style-type: none"> <li>• The relevant industry, regulatory, and other external factors</li> </ul>

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	<ul style="list-style-type: none"> <li>• The nature of the entity</li> <li>• The entity's selection and application of accounting policies</li> <li>• The entity's objectives and strategies</li> <li>• The measurement and review of the entity's financial performance</li> <li>• The entity's internal control</li> </ul> <p><sup>4</sup> Paragraphs 12–13 of AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>.</p> <p><del>A37</del><u>A35</u>. The auditor's knowledge obtained in the audit may also include matters that are prospective in nature. Such matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management's evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, <i>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern</i>.</p> <p><del>A38</del><u>A36</u>. In the case of a group audit, <del>though</del> the group auditor <u>performs the procedures described in paragraph .16. The group auditor's knowledge related to the components is limited to that obtained by the group auditor:</u></p> <p>a) <u>While performing the procedures</u> required <del>to read the entirety of the other information if, in accordance with</del> <u>by</u> paragraph <del>.24</del><u>27</u> of</p>

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	<p>AU-C section 600, <i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i>, <del>when</del> the group <del>auditor</del> <u>engagement partner</u> decides to make reference to <u>the audit of</u> a component auditor in <del>the auditor's report on the group financial statements, the group auditor's knowledge does not extend beyond that obtained by the group auditor during the audit of the group financial statements.</del> <u>accordance with paragraph .24 of AU-C section 600.</u></p> <p><del><b>A39.</b> In considering whether there is a material inconsistency between <u>While performing</u> the other information and the auditor's knowledge obtained in the audit, the auditor may focus on those matters in the other information that are of sufficient importance that a misstatement of the other information in relation to those matters could be material.</del></p> <p><del><b>A40.</b> In relation to many matters in the other information, the auditor's recollection of the audit evidence obtained and conclusions reached during the audit may be sufficient to enable the auditor to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit. The more experienced and the more familiar with the key aspects of the audit the auditor is, the more likely it is that the auditor's recollection of relevant matters will be sufficient. For example, the auditor may be able to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit in light of the auditor's recollection of discussions held with management or those charged with governance or findings from procedures carried out during the audit such as the reading of board minutes, without the need to take further action.</del></p> <p>b) <del><b>A41.</b> 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 for a</del></p>

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	<p><del><u>group audit on components for which</u> the auditor assumes responsibility for the <u>work of component auditors</u>) is appropriate as a basis for the auditor's consideration of whether a material inconsistency exists. Examples are as follows: <u>component auditors, and</u></del></p> <p><del>e) When the other information describes the planned cessation of a major product line, although the auditor is aware of the planned cessation, the auditor may make inquiries of the relevant engagement team member who performed the audit procedures in this area to support the auditor's consideration of whether the description is materially inconsistent with the auditor's knowledge obtained during the audit.</del></p> <p><del>d) When the other information describes important details of a lawsuit addressed in the audit, but the auditor cannot recall them adequately, it may be necessary to refer to the audit documentation where such details are summarized to support the auditor's recollection.</del></p> <p><u>c) A42.</u> Whether, and if so the extent to which, the auditor refers to relevant audit documentation or makes inquiries of relevant members of the engagement team or relevant component auditors is a matter of professional judgment. However, it may not be necessary for the auditor to refer to relevant audit documentation or to make inquiries of relevant members of the engagement team or relevant component auditors about any matter included in the other information. This may be the case, for example, when the group auditor decides to make reference to a component auditor in the auditor's report in accordance with paragraph .24 of AU-C section 600 and the group auditor has obtained sufficient knowledge in connection with the group audit about matters in</p>

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	<p><del>the other information relating to a significant component.</del> <u>As part of the procedures performed to conclude on the overall financial statements as required by paragraphs .14 through .16 of AU-C section 700.</u></p>
<p><b>16.</b> While reading the other information in accordance with paragraph 15, the auditor should remain alert for indications that the other information not related to the financial statements <del>or the auditor's</del> <u>appears to contain a material misstatement of fact, based solely on</u> knowledge obtained <del>in dur-</del> <u>ing</u> the audit <del>appears to be materially misstated.</del> (Ref: par. <del>A43–A44</del> <u>A34–A38</u>)</p>	<p><del><i>Remaining Alert for Other Indications That the Other Information Appears to Be Materially Misstated</i></del> (Ref: par. <del>16</del>)</p> <p><del>A43</del> <u>A37</u>. Other information may include discussion of matters that are not related to the financial statements and may also extend beyond the auditor's knowledge obtained in the audit. For example, the other information may include statements about the entity's greenhouse gas emissions.</p> <p><del>A44</del> <u>A38</u>. Remaining alert for other indications that the other information <u>not directly related to the financial statements</u> appears to <del>be materially misstated</del> <u>contain a material misstatement of fact</u> could potentially result in the auditor identifying such matters as the following:</p> <ul style="list-style-type: none"> <li>• Differences between the other information and the general knowledge, apart from the knowledge obtained in the audit, of the engagement team member reading the other information that lead the auditor to believe that the other information appears to <del>be materially misstated</del> <u>contain a material misstatement of fact</u></li> </ul>

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	<ul style="list-style-type: none"> <li>An internal inconsistency in the other information that leads the auditor to believe that the other information <del>appears to be materially misstated</del> <u>contains a material misstatement of fact</u></li> </ul>
<b>Responding When a Material Inconsistency Appears to Exist or Other Information Appears to <del>be Materially Misstated</del> <u>Contain a Material Misstatement of Fact</u></b>	<b>Responding When a Material Inconsistency Appears to Exist or Other Information Appears to <del>Be Materially Misstated</del> <u>Contain a Material Misstatement of Fact</u></b> (Ref: par. 17)
<p>17. If the auditor identifies <del>that</del> a material inconsistency <u>that</u> appears to exist (or becomes aware that the other information appears to <del>be materially misstated</del>) <u>contain a material misstatement of fact</u>, the auditor should discuss the matter with management and, if necessary, perform other procedures to conclude the following: (Ref: par. <del>A45–A49</del> <u>A39–A42</u>)</p> <ol style="list-style-type: none"> <li>Whether a material <u>inconsistency or a material misstatement of the <del>other information</del> <u>fact</u></u> exists</li> <li>Whether a material misstatement of the financial statements exists</li> <li>Whether the auditor’s understanding of the entity and its environment needs to be updated</li> </ol>	<p><del>A45</del> <u>A39</u>. The auditor’s discussion with management about a material inconsistency (or <del>other information that appears to be materially misstated</del>) <u>a material misstatement of fact</u> may include requesting <u>that</u> management <del>to</del> provide support for the basis of management’s statements in the other information. Based on management’s further information or explanations, the auditor may be satisfied that the other information is not materially <del>misstated</del> <u>inconsistent or does not contain a material misstatement of fact</u>. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment <u>regarding other information not directly related to the financial statements</u>.</p> <p><del>A46</del> <u>A40</u>. Conversely, the discussion with management may provide further information that supports the auditor’s conclusion that a material misstatement of <del>the other information</del> <u>fact</u> exists.</p> <p><del>A47</del> <u>Additionally, when discussing an apparent material misstatement of fact with management, the auditor should consider that he or she may not be able to evaluate the validity of some disclosures included in the other information or management's responses to the auditor's inquiries.</u></p>

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	<p><u>A41</u>. It may be more difficult for the auditor to challenge management on matters of judgment than on those of a more factual nature. However, there may be circumstances where the auditor concludes that the other information contains a statement that is not consistent with the financial statements or, <u>based on</u> the auditor's knowledge obtained in the audit, <u>a material misstatement of fact</u>. These circumstances may raise doubt about the other information, <u>or</u> the <u>audited</u> financial statements, <del>or the auditor's knowledge obtained in the audit.</del></p> <p><del>A48. Because there is a wide range of possible material misstatements of the other information, the nature and extent of other procedures the auditor may perform to conclude whether a material misstatement of the other information exists are matters of the auditor's professional judgment in the circumstances.</del></p> <p><del>A49</del><u>A42</u>. When a matter is unrelated to the financial statements <del>or the auditor's knowledge obtained in the audit</del>, the auditor may not be able to fully assess management's responses to the auditor's inquiries <u>about possible material misstatements of fact</u>. Nevertheless, based on management's further information or explanations, or following changes made by management to the other information, the auditor may be satisfied that a material <del>inconsistency</del><u>misstatement of fact</u> no longer appears to exist <del>or that the other information no longer appears to be materially misstated.</del> When the auditor is unable to conclude that a material <del>inconsistency</del><u>misstatement of fact</u> no longer appears to exist <del>or that the other information no longer appears to be materially misstated</del>, the auditor may request <u>that</u> management <del>to</del> consult with a qualified third party (for example, a management's expert or legal counsel). In certain cases, after considering the responses from management's consultation, the auditor may not be able to conclude whether a material misstatement of the other</p>

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	<p>information exists. Actions the auditor may then take include one or more of the following:</p> <ul style="list-style-type: none"> <li>• Obtaining advice from the auditor’s legal counsel</li> <li>• Considering the implications for the auditor’s report, for example, whether to describe the circumstances when there is a limitation imposed by management</li> <li>• Withdrawing from the audit, where withdrawal is possible under applicable law or regulation</li> </ul>
<p><b>Responding When the Auditor Concludes That a Material <u>Inconsistency or a Material Misstatement of the Other Information Fact</u> Exists</b></p>	<p><b>Responding When the Auditor Concludes That a Material <u>Inconsistency or a Material Misstatement of the Other Information Fact</u> Exists</b></p>
<p><b>18.</b> If the auditor concludes that a material <u>inconsistency or material misstatement of fact in</u> the other information exists, the auditor should request <u>that</u> management <del>to</del> correct the other information:</p> <ol style="list-style-type: none"> <li>a. If management agrees to make the correction, the auditor should determine that the correction has been made.</li> <li>b. If management refuses to make the correction, the auditor should communicate the matter with those charged with governance and request that the correction be made.</li> </ol>	
<p><b>19.</b> If the auditor concludes that a material <u>inconsistency or a material misstatement of fact</u> exists in other information obtained prior to the date of</p>	<p><i>Responding When the Auditor Concludes That a Material <u>Inconsistency or a Material Misstatement of Fact</u> Exists in Other Information Obtained Prior to the Date of the Auditor’s Report (Ref: par. 19)</i></p>

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<p>the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor should take appropriate action, including the following: (Ref: par. <a href="#">A50A43</a>)</p> <p>a. -Consider the implications for the auditor's report and communicate with those charged with governance about how the auditor plans to address the material <a href="#">inconsistency or material</a> misstatement <a href="#">of fact</a> in the auditor's report. (see paragraph 23eii); (Ref: par. <a href="#">A51A44</a>)</p> <p>b. Withhold the auditor's report. (Ref: par. <a href="#">A53A46</a>)</p> <p>c. -Withdraw from the engagement if withdrawal is possible under applicable law or regulation. (Ref: par. <a href="#">A52–A53A45–A46</a>)</p>	<p><a href="#">A50A43</a>. The actions the auditor takes if the other information is not corrected after communicating with those charged with governance are a matter of the auditor's professional judgment. The auditor may consider whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation, or other professional standards to communicate the matter to a regulator or relevant professional body.</p> <p>Reporting Implications (Ref: par. 19a)</p> <p><a href="#">A51A44</a>. In rare circumstances, a disclaimer of opinion on the financial statements may be appropriate when the refusal to correct the material <a href="#">inconsistency or material</a> misstatement of <a href="#">fact in</a> the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.</p> <p>Withdrawal From the Engagement (Ref: par. 19c)</p> <p><a href="#">A52A45</a>. Withdrawal from the engagement, if withdrawal is possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material <a href="#">inconsistency or material</a> misstatement of <a href="#">fact in</a> the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit.</p>

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	<p><i>Considerations Specific to Governmental Entities</i> (Ref: par. 19b–c)</p> <p><del>A53</del><u>A46</u> In audits of governmental entities, withdrawal from the engagement or withholding the auditor's report may not be possible under law or regulation. In such cases, the auditor may issue a report or written communication to those charged with governance and the appropriate statutory body, if applicable, giving details of the inconsistency <del>or material misstatement of fact.</del></p>
<p><b>20.</b> If the auditor concludes that a material <u>inconsistency or material misstatement of fact</u> exists in other information obtained after the date of the auditor's report, the auditor should do the following:</p> <p><i>a.</i> If the other information is corrected, perform the procedures necessary in the circumstances. (Ref: par. <del>A54</del><u>A47</u>)</p> <p><i>b.</i> If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations to seek to have the uncorrected material <u>inconsistency or material misstatement of fact</u> appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report. (Ref: par. <del>A55–A56</del><u>A48–A49</u>)</p>	<p><i>Responding When the Auditor Concludes That a Material <u>Inconsistency or a Material Misstatement of Fact</u> Exists in Other Information Obtained After the Date of the Auditor's Report</i> (Ref: par. 20)</p> <p><del>A54</del><u>A47</u>. If the auditor concludes that a material <u>inconsistency or a material misstatement of fact</u> exists in other information obtained after the date of the auditor's report, and such <del>a material misstatement has</del><u>matters have</u> been corrected, the auditor's procedures necessary in the circumstances include determining that the correction has been made (in accordance with paragraph 18a) and may include reviewing the steps taken by management to communicate with those in receipt of the other information, if previously issued, to inform them of the revision.</p> <p><del>A55</del><u>A48</u>. If those charged with governance do not agree to revise the other information, taking appropriate action to seek to have the uncorrected <u>material inconsistency or material misstatement of fact</u> appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report requires the exercise of professional judgment.</p>

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	<p>ment, 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.</p> <p><b>A56A49.</b> When a material <u>inconsistency or material</u> misstatement of <del>the other information</del><u>fact</u> remains uncorrected, appropriate actions that the auditor may take to seek to have the uncorrected <del>material misstatement</del><u>matter</u> 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:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Bringing the <del>material misstatement of the other information</del><u>matter</u> to the attention of known users of the financial statements and the auditor's report.</li> <li>• Communicating with a regulator or relevant professional body about the uncorrected material <u>inconsistency or material</u> misstatement <u>of fact</u>.</li> <li>• Considering the implications for engagement continuance (see also paragraph <b>A52A43</b>).</li> </ul>

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<p><b>Responding When a Material Misstatement in the Financial Statements Exists or the Auditor’s Understanding of the Entity and Its Environment Needs to Be Updated</b></p>	<p><b>Responding When a Material Misstatement in the Financial Statements Exists or the Auditor’s Understanding of the Entity and Its Environment Needs to Be Updated</b> (Ref: par. 21)</p>
<p><b>21.</b> If, as a result of performing the procedures in paragraphs 15–17, the auditor concludes that a material misstatement in the financial statements exists or the auditor’s understanding of the entity and its environment needs to be updated, the auditor should respond appropriately in accordance with the other SASs. (Ref: par. <del>A57</del>A50)</p>	<p><del>A57</del>A50. In reading the other information, the auditor may become aware of new information that has implications for the following:</p> <ul style="list-style-type: none"> <li>• The auditor’s understanding of the entity and its environment, which may indicate the need to revise the auditor’s risk assessment.<sup>5</sup></li> <li>• The auditor’s responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.<sup>6</sup></li> <li>• The auditor’s responsibilities relating to subsequent events.<sup>7</sup></li> </ul> <p><sup>5</sup> Paragraphs .11, .31, and .A1 of AU-C section 315.</p> <p><sup>6</sup> AU-C section 450, <i>Evaluation of Misstatements Identified During the Audit</i>.</p> <p><sup>7</sup> Paragraphs .10 and .14 of AU-C section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>.</p>
<p><b>Reporting</b></p>	<p><b>Reporting</b> (Ref: par. 23–24)</p>
<p><b>22.</b> The auditor’s report should include a separate section with the heading “Other Information,” or other appropriate heading, when, at the date of the</p>	

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<p>auditor's report, the auditor has obtained <del>some or</del> all of the other information.</p>	
<p><b>23.</b> When the auditor's report is required to include an other information section in accordance with paragraph 22, the section should <u>be the last one presented in the auditor's report and should</u> include the following: (Ref: par. <del>A58</del><u>A51</u>)</p> <ul style="list-style-type: none"> <li>a. A statement that management is responsible for the other information</li> <li>b. <del>An identification</del><u>Identification</u> of <u>the annual report that contains the</u> other information, <del>if any, obtained by the auditor prior to the date of the auditor's report.</del> (Ref: par. <del>A59</del><u>A52</u>)</li> <li>c. A statement that the auditor's opinion does not cover the other information <del>and that the auditor does not express an opinion or any form of assurance on the other information</del>(Ref: par. <del>A53</del><u>A53</u>)</li> <li>d. <u>A description of the auditor's responsibilities relating</u><del>related</del> to <del>reading, considering,</del><u>other information, including:</u> <ul style="list-style-type: none"> <li>1) <u>A statement that the auditor's responsibility is to read and reporting</u><del>perform</del> <u>certain limited procedures</u> on other information <del>as</del><u>included</u> in the annual report (Ref: par. <del>A54</del><u>A54</u>)</li> <li>2) <u>A statement that in the event the auditor becomes aware that the other information contains a material inconsistency with the audited financial statements, a material</u></li> </ul> </li> </ul>	<p><del>A58</del><u>A51</u>. Illustrative examples of the "Other Information" section of the auditor's report are included in the appendix.</p> <p><del>A59</del><u>A52</u>. 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.</p> <p><del>A53</del><u>A53</u>. <u>The auditor is unable to provide any form of assurance on the other information presented in the entity's annual report because (1) the auditor generally does not possess and is not required to have the expertise to evaluate whether the other information unrelated to the financial statements is materially misstated, (2) the nature and extent of the procedures required to be performed under this proposed SAS is limited, and (3) the absence of generally recognized standards or frameworks available to</u></p>

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<p><u>misstatement of fact in the other information, or both, that has not been appropriately revised, the auditor is required <del>by this proposed SAS</del> to describe the inconsistency or misstatement, or both, in the auditor's report</u></p> <p>3) <u>A statement that the auditor is not responsible for searching for omitted information or for the completeness of the other information presented in the entity's annual report</u></p> <p>4) <u>A statement that the limited procedures do not constitute an audit or review of the other information</u></p> <p>5) <u>A description of the limited procedures performed on other information directly related to the financial statements</u></p> <p>6) <u>A statement that the procedures performed on other information unrelated to matters appearing in the financial statements are limited to reading the other information and, based solely on knowledge obtained in the audit of the financial statements, remaining alert for indications that other information is materially incorrectly stated or presented.</u></p> <p>e. Either</p> <p>i. a statement that the auditor has nothing to report or</p> <p>ii. <del>if the auditor has concluded that there is an uncorrected material misstatement of the other information,</del> a statement that</p>	<p><u>assess the presentation of the other information prepared by management.</u></p> <p><u>A54. When the engagement partner decides to make reference to a component auditor in the auditor's report in the case of a group audit in accordance with paragraph .24 of AU-C section 600, the auditor makes clear the group auditor has no responsibility for the other information related to the components audited by the component auditor by referencing the statements made in the auditor's responsibility section of the auditor's report required by paragraph 28 of AU-C section 600.</u></p>

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<p>describes the uncorrected material <a href="#">inconsistency or material misstatement of fact in</a> the other information</p>	
<p><b>24.</b> When the auditor expresses a qualified or adverse opinion in accordance with AU-C section 705, <i>Modifications to the Opinion in the Independent Auditor's Report</i>, the auditor should consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 23e. (Ref: par. <del>A60–A64</del><a href="#">A53–A57</a>)</p>	<p><i>Reporting Implications When the Auditor's Opinion on the Financial Statements Is Qualified or Adverse</i> (Ref: par. 24)</p> <p><del>A60</del><a href="#">A55</a>. A qualified or adverse auditor's opinion on the financial statements may not have an impact on the statement required by paragraph 23e if the matter in respect of which the auditor's opinion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. For example, a qualified opinion on the financial statements because of nondisclosure of directors' remuneration as required by the applicable financial reporting framework may have no implications for the reporting required under this proposed SAS. In other circumstances, there may be implications for such reporting as described in paragraphs A60–A62.</p> <p>Qualified Opinion Due to a Material Misstatement in the Financial Statements</p> <p><del>A61</del><a href="#">A56</a>. In circumstances in which the auditor's opinion is qualified, consideration may be given to whether the other information is also materially misstated for the same matter as, or a matter related to, the matter giving rise to the qualified opinion on the financial statements.</p> <p>Qualified Opinion Due to Limitation of Scope</p> <p><del>A62</del><a href="#">A57</a>. When there is a limitation of scope with respect to a material item in the financial statements, the auditor will not have obtained suffi-</p>

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	<p>cient appropriate audit evidence about that matter. In these circumstances, the auditor may be unable to conclude whether or not the amounts or other items in the other information related to this matter result in a material <a href="#">inconsistency or a material</a> misstatement of <a href="#">fact in</a> the other information. Accordingly, the auditor may need to modify the statement required by paragraph 23e to refer to the auditor’s inability to consider management’s description of the matter in the other information in respect of which the auditor’s opinion on the financial statements has been qualified as explained in the basis for qualified opinion paragraph. The auditor is nevertheless required to report any other uncorrected material <a href="#">inconsistencies or material</a> misstatements of <a href="#">fact in</a> the other information that have been identified.</p> <p>Adverse Opinion</p> <p><del>A63</del><a href="#">A58</a>. An adverse opinion on the financial statements relating to a specific matter or matters described in the basis for adverse opinion paragraph does not justify the omission of reporting of material <a href="#">inconsistencies or material</a> misstatements of <a href="#">fact in</a> the other information that the auditor has identified in the auditor’s report in accordance with paragraph <del>23e</del><a href="#">23h</a>. When an adverse opinion has been expressed on the financial statements, the auditor may need to appropriately modify the statement required by paragraph <del>23e</del><a href="#">23h</a>, for example, to indicate that amounts or items in the other information are materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse opinion on the financial statements.</p> <p>Disclaimer of Opinion</p>

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	<p><del>A64</del><a href="#">A59</a>. When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information, may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by proposed revised AU-C section 705, the auditor's report does not include a section addressing the reporting requirements under this proposed SAS.</p>
<p><b>Documentation</b></p>	
<p><b>25.</b> In addressing the requirements of paragraphs .08–.11 of AU-C section 230, <i>Audit Documentation</i>, as those requirements apply to this proposed SAS, the auditor should include the following in the audit documentation:</p> <ul style="list-style-type: none"> <li><i>a.</i> The procedures performed under this proposed SAS</li> <li><i>b.</i> The final version of the other information on which the auditor has performed the work required under this proposed SAS</li> <li><i>c.</i> <u>Any documents or reconciliations obtained from management when comparing other information directly related to the financial statements with accounting records that are subject to the audit</u></li> </ul>	

## Appendix

### Illustrations of Other Information Sections to Be Included in Auditor's Reports Relating to Other Information Included in the Annual Report

- Illustration 1: The auditor has not identified a material [inconsistency or material](#) misstatement of [fact in](#) the other information.
- Illustration 2: The auditor has concluded that a material [inconsistency or material](#) misstatement of [fact in](#) the other information exists.
- Illustration 3: A limitation of scope with respect to a material item in the consolidated financial statements also affects the other information.
- Illustration 4: The adverse opinion on the consolidated financial statements also affects the other information.

**Illustration 1: The Auditor Has Not Identified a Material Inconsistency or Material Misstatement of Fact in the Other Information.**

***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],<sup>1</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~~ and perform certain limited procedures on the other information ~~and, and to report any material inconsistencies with the audited financial statements or material misstatements of facts in doing so, consider whether~~ the other information ~~is materially inconsistent with~~ of which we become aware that have not been appropriately revised. We are not responsible for searching for omitted information or for the completeness of the other information presented in the entity's annual report. Accordingly, these limited procedures do not constitute an audit or review of the other information.

With respect to the material other information directly related to the financial statements ~~or,~~ our procedures consist of comparing it to (1) the audited financial statements or (2) accounting records that are subject to the audit or have been derived directly from such accounting records by analysis or computation and, where applicable, recalculating the amounts of the other information. With respect to other information unrelated to matters appearing in the audited financial statements, our procedures are limited to reading the other information and remaining alert for any potential material misstatement of fact based solely on knowledge obtained in the audit ~~or otherwise appears to be materially misstated. If, based on the work we have of the financial statements.~~

Based on the limited procedures 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.~~

**Illustration 2: The ~~auditor~~ Auditor Has Concluded That a Material Inconsistency or Material Misstatement of Fact in the Other Information Exists.**

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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.

***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],<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~~ and perform certain limited procedures on the other information ~~and, and to report any material inconsistencies with the audited financial statements or material misstatements of facts in doing so, consider whether~~ the other information ~~is materially inconsistent with~~ of which we become aware that have not been appropriately revised. We are not responsible for searching for omitted information or for the completeness of the other information presented in the entity’s annual report. Accordingly, these limited procedures do not constitute an audit or review of the other information.

With respect to the material other information directly related to the financial statements ~~or,~~ our procedures consist of comparing it to (1) the audited financial statements or (2) accounting records that are subject to the audit or have been derived directly from such accounting records by analysis or computation and, where applicable, recalculating the amounts of the other information. With respect to other information unrelated to matters appearing in the audited financial statements, our procedures are limited to reading the other information and remaining alert for any potential material misstatement of fact based solely on knowledge obtained in the audit ~~or otherwise appears to be materially misstated.~~ of the financial statements.

~~If, based~~ Based on the ~~work we have~~ limited procedures performed, we have identified the following material [inconsistencies and/or misstatements of fact]:

~~[Description of material conclude that there is a material misstatement of this other information, we are required to report that fact. As described below, we have concluded that such a~~ inconsistency with the audited financial statements, the material misstatement of fact in the other information exists. ~~or both.]~~

~~[Description of material misstatement of the other information]~~

**Illustration 3: A Limitation of Scope With Respect to a Material Item in the Consolidated Financial Statements Also Affects 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.

***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],<sup>3</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~~ and perform certain limited procedures on other information and, ~~in doing so, consider whether the other information is materially inconsistent to report any material inconsistencies~~ with the audited financial statements or ~~our knowledge obtained in the audit or otherwise appears to be materially misstated.~~

~~If, based on the work~~ material misstatements of facts in the other information of which we ~~have performed, we conclude~~ become aware that ~~there is a material misstatement of this other information, we are required to report that fact.~~ have not been appropriately revised. We are not responsible for searching for omitted information or for the completeness of the other information presented in the entity’s annual report. Accordingly, these limited procedures do not constitute an audit or review of the other information.

With respect to the material other information directly related to the financial statements, our procedures consist of comparing it to (1) the audited financial statements or (2) accounting records that are subject to the audit or have been derived directly from such accounting records by analysis or computation and, where applicable, recalculating the amounts of the other information. With respect to other information unrelated to matters appearing in the audited financial statements, our procedures are limited to reading the other information and remaining alert for any potential material misstatement of fact based solely on knowledge obtained in the audit of the financial statements.

As described in the Basis for Qualified Opinion paragraph, we were unable to obtain sufficient appropriate evidence about the carrying amount of ABC Company’s investment in XYZ Company as of December 31, 20X1 and ABC Company’s share of XYZ Company’s net income for the year. Accordingly, we are unable to ~~conclude~~ determine whether the other information ~~is materially misstated~~ contains a material inconsistency with the audited financial statements, a material misstatement of fact or both, with respect to this matter.

**Illustration 4: The Adverse Opinion on the Consolidated Financial Statements Also Affects the Other Information.**

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<sup>3</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.

***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],<sup>4</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~~ and perform certain limited procedures on other information and, ~~in doing so, consider whether the other information is materially inconsistent~~ to report any material inconsistencies with the audited financial statements or ~~our knowledge obtained in the audit or otherwise appears to be materially misstated.~~

~~If, based on the work~~ material misstatements of facts in the other information of which we ~~have performed, we conclude~~ become aware that ~~there is a material misstatement of this other information, we are required to report that fact.~~ have not been appropriately revised. We are not responsible for searching for omitted information or for the completeness of the other information presented in the entity’s annual report. Accordingly, these limited procedures do not constitute an audit or review of the other information.

With respect to the material other information directly related to the financial statements, our procedures consist of comparing it to (1) the audited financial statements or (2) accounting records that are subject to the audit or have been derived directly from such accounting records by analysis or computation and, where applicable, recalculating the amounts of the other information. With respect to other information unrelated to matters appearing in the audited financial statements, our procedures are limited to reading the other information and remaining alert for any potential material misstatement of fact based solely on knowledge obtained in the audit of the financial statements.

As described in the Basis for Adverse Opinion paragraph, ABC Company should have consolidated XYZ Company. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the X report affected by the failure to consolidate XYZ Company.

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<sup>4</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.