



May 18, 2018

Mr. Mike Glynn  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Mr. Glynn:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the AICPA Auditing Standards Board's exposure draft titled *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*.

We have reviewed the exposure draft and generally agree with the proposed changes. Our responses to the specific requests for comment posed in the exposure draft follow.

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 generally agree the proposed revisions clarify the intended scope of documents to be subjected to the auditor's procedures.

However, we do have one concern with the proposed definition of annual report. It includes the insertion "or incorporates by reference," which could be construed to include any message or publication that includes a hyperlink to the financial statements and audit report. While we understand in some cases, other information that is part of an annual report will only include the financial statements and auditor's report by reference, we are concerned with the information that could potentially be pulled in that *should not be considered* other information subject to this proposed standard. We suggest the board provide additional guidance on when this would be appropriate. If clear guidance cannot remove this potential, then we suggest the definition be revised to what is described in ISA 720.

In addition, to make it clear that compliance audits, such as federal single audits, are not covered by this standard, we suggest a bullet be added to A9 specifically exempting federal compliance audits conducted in accordance with the U.S. Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

2. *Does the proposed requirement for the auditor to determine, through discussion with management, and obtain management's written acknowledgment regarding, which document or documents make up the annual report, and the entity's planned manner and timing of the issuance of such documents appropriately achieve the intent of ensuring that both the auditor and management understand the documents that are considered to constitute the entity's annual report and therefore are subject to the auditor's procedures required by the proposed SAS?*

Yes, we believe the proposed requirements achieve the intent of ensuring the auditor and management understand specifically which documents are considered to constitute the entity's annual report, and therefore are subject to the procedures required by the proposed SAS.

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?*

The work effort the proposed standard requires seems consistent with the procedures many of our state auditors are already performing and may improve all auditors' understanding of their responsibilities and lead to more consistent application of the requirements.

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

The guidance seems contradictory. In paragraph 4, the auditor is required to read and consider the other information because other information that is materially inconsistent with the financial statements, or the auditor's knowledge obtained in the audit, may indicate that there is a material misstatement of the other information. Also, in paragraph 12, the definition of "misstatement of other information" includes the omission of information because it misleading. However, paragraph A12 states that the auditor is not responsible for searching for omitted information or for the completeness of other information. How can an auditor determine if there is a material misstatement due to omitted information if we are not responsible for searching for the information? We suggest the board clarify the auditor's responsibilities relating to omitted or obscured information.

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?*

In cases where the group auditor is making reference to a component auditor, proposed paragraph A38 makes it clear that the group auditor's knowledge does not extend beyond that obtained by the group auditor during the audit of the group financial statements.

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 believe that the proposed requirement adequately conveys that the auditor's opinion does not cover the other information and that the auditor does not express an opinion or provide any form of assurance on the other information.

However, we do have a concern with the lack of guidance addressing what auditors should do when other information is obtained after the report issuance date. Paragraph 13 instructs the auditor to obtain other information prior to the date of the auditor's report, if possible. Paragraph A24 clarifies that the auditor is not precluded from dating or issuing the auditor's report prior to obtaining some or all of the other information. We believe it is inappropriate for the auditor to issue a report describing the auditor's responsibilities and whether there is anything to report concerning other information when the auditor has not yet received the information to review. Specifically, we do not believe A59 provides adequate guidance regarding procedures over other information the auditor is yet to perform. We suggest the board provide additional guidance in paragraphs A24 and A59 to address this situation.

Additionally, proposed paragraph A63 does not prohibit auditors from including in an adverse opinion unmodified language for other information that "We have nothing to report in this regard." We are concerned about allowing unmodified language about other information in these circumstances for

Mr. Mike Glynn  
May 18, 2018  
Page 3

the same reasons it is not allowed for disclaimers of opinion articulated in proposed paragraph A64, which is that including a section to address other information might overshadow the adverse opinion on the financial statements as a whole. We suggest the board revise paragraph A63 to be consistent with paragraph A64.

We have one general comment below:

The reference to assurance in proposed AU-C 720.23(c) differs from extant wording in AU-C 730.8(c)(ii) and (d)(ii) on required supplementary information. Specifically, proposed AU-C 720 uses "any form of assurance" while AU-C 730 uses "any assurance." Further, proposed AU-C 700 uses "any other form of assurance" in illustrative language for prior period financial statements audited by a predecessor auditor (A77), prior financial statements were compiled (A79), and prior financial statements not audited, reviewed, or compiled (A80). We suggest the Board use consistent terminology throughout the SASs so that similar statements in the auditor's report are not phrased differently.

We appreciate the opportunity to respond to such an important document. Should you have any questions or need additional information regarding our response, please contact Sherri Rowland of NSAA at (859) 276-1147 or me at (601) 576-2641.

Sincerely,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering". The signature is stylized and cursive, with a long horizontal flourish extending to the right.

Stacey E. Pickering  
President, NSAA