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Responsibilities for Other Information in an Annual Report

Isaac M. O'Bannon • Aug. 14, 2013

On Wednesday, the [Public Company Accounting Oversight Board](#) proposed for public comment a new auditing standard and related amendments to enhance the auditor's reporting model.

The proposed standard would retain the pass/fail model in the existing auditor's report, but would provide additional information to investors and other financial statement users about the audit and the auditor.

"These proposed changes will make the auditor's report more relevant to investors," said James R. Doty, PCAOB Chairman. "More robust audit reports that demonstrate the strength and value of the audit also should lead to better public awareness of, and appreciation for, auditors' skill and insight."

In 2010 and 2011, PCAOB staff conducted outreach to investors, auditors, preparers of financial statements, audit committee members, and other interested parties to seek their views on potential changes to the auditor's report. The staff presented its findings to the Board at an [open meeting](#) in March 2011.

In June 2011, the Board issued a [Concept Release](#) to seek public comment on potential changes to the auditor's reporting model.

Additionally, in September 2011, the Board held a [public roundtable](#) to obtain insight from a diverse group of investors and other financial statement users, preparers of financial statements, audit committee members, and auditors on the alternatives presented in the Concept Release.

The proposed auditor reporting standard would require:

- the communication of critical audit matters as determined by the auditor;

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auditor identifies a material inconsistency between the other information and the audited financial statements, a material misstatement of fact, or both.

The scope of “other information” in an annual report filed on Form 10-K would include, among other items, selected financial data and management’s discussion and analysis.

“The goal of these proposed standards and amendments is to significantly improve the current auditor reporting model by requiring the auditor to communicate specific information about each audit based on audit procedures performed,” said Martin F. Baumann, PCAOB Chief Auditor and Director of Professional Standards.

“Communicating critical audit matters in the auditor’s report will make the report more informative, thereby, increasing its relevance and usefulness to investors and other financial statement users,” he said.

The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, the proposed auditor reporting standard, would supersede portions of AU sec. 508, *Reports on Audited Financial Statements*.

The Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor’s Report, the proposed other information standard, would supersede AU sec. 550, *Other Information in Documents Containing Audited Financial Statements*.

Comments on the proposed standards and related amendments are due by Dec. 11, 2013.

Additionally, the Board is considering holding a public roundtable in 2014 to discuss the proposed standards and comments received. A [fact sheet](#) on the proposal is also available.

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