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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

May 15, 2009

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Audit and Attest Standards
American Institute of Certified Public Accountants
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Subject: AICPA Auditing Standards Board (ASB) January 21, 2009, Exposure Draft of the proposed Statements on Auditing Standards (SAS) entitled

- *Required Supplementary Information (RSI)*,
- *Other Information in Documents Containing Audited Financial Statements (OSI)*, and
- *Other Information in Relation to the Financial Statements as a Whole ("In Relation To")*.

This letter provides the U.S. Government Accountability Office's (GAO) comments on the ASB's proposed standards on auditor's objectives and responsibilities with regard to (1) required supplementary information, (2) other information in documents containing audited financial statements, and (3) other information in relation to the financial statements as a whole. Generally, we support the proposed standards and believe they will provide clarity and improve consistency of practice concerning information associated with the basic financial statements and the auditor's report.

The Board is seeking comments specifically on changes resulting from applying the clarity drafting conventions to the proposed standards and from converging the proposed SAS, *Other Information in Documents Containing Audited Financial Statements* with International Standard on Auditing (ISA) 720. We provide the requested comments and suggestions in this letter and propose wording changes in the attachment.

Request for Specific Comments

(1) Are the auditor's objectives appropriate?

Yes, we believe that the auditor's objectives are appropriate.

(2) Are the revisions from the existing standards to converge with ISA 720 (Redrafted) appropriate?

Yes, we believe the revisions to converge the existing standards with ISA 720 are appropriate.

(3) Are the differences between the proposed SAS, *Other Information in Documents Containing Audited Financial Statements*, and ISA 720 (Redrafted) identified in exhibit B, and other language changes, appropriate?

Yes, we believe that the differences between the proposed OSI SAS and ISA 720 that are identified in exhibit B and other language changes are appropriate.

(4) Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?

We believe that the manner in which considerations in these areas have been addressed is appropriate, except as follows:

- A new paragraph, A6, should be added to the proposed RSI standard to identify the supplementary information that is often required to accompany the financial statements of the U.S. federal government and its entities as well as U.S. state and local government entities.
- Paragraph A5 of the proposed OSI standard should be revised to also include performance and accountability reports, which are issued at the federal level.
- Paragraph A4 of the proposed “In Relation To” standard provides examples of other information on which the auditor may be engaged to opine on whether the information is fairly stated in relation to the financial statements taken as a whole. Since the examples in this list relate to private and not for profit entities, we recommend including examples of other information relating to audits of government entities.

Wording for these proposed changes is provided in the attachment to this letter.

Other Comments

- The effective date for the proposed standards is for “periods beginning on or after December 15, 2009,” which is inconsistent with other redrafted ASB standards that are effective for periods beginning on or after December 15, 2010.
- We recommend rewording the reference to AU section 623, *Special Reports*, in the application section of all three proposed standards to clearly convey that auditors are to follow the provisions of AU 623 when engaged to express an opinion on whether the required supplementary information or other

information is fairly presented in all material respects in conformity with the applicable basis of accounting. These references, as currently written, do not clearly explain the relevance of AU 623 to required supplementary information and other information. In the attachment to this letter we have proposed wording for this change in paragraph A3 of the proposed RSI standard, paragraph A2 of the proposed OSI standard, and paragraph A3 of the proposed “In Relation To” standard.

- Paragraph A4 of the proposed OSI standard states that for purposes of the SAS, other information does not encompass press releases or information on an entity’s Web site. Paragraph A5 of the proposed “In Relation To” standard also includes this guidance and further states that information in an analyst’s briefing is not encompassed in other information. The standards provide no reason or explanation for this guidance.

We believe it would be imprudent to exclude from the provisions of the proposed standards press releases, analyst briefings, and any other information of which the auditor is aware that is included in documents accompanied by financial statements and a related auditor’s report, regardless of whether the information is in print or other medium, such as Web sites. Material inconsistencies between such information and the auditor’s report could raise doubts about the basis for the auditor’s opinion on the financial statements. Accordingly, we recommend removing paragraph A4 from the proposed OSI standard and paragraph A5 from the proposed “In Relation To” standard. We also suggest adding wording to paragraph A3 of the proposed OSI standard stating that the provisions of that standard apply to other information in documents containing the financial statements and the related auditor’s report, regardless of the medium.

Proposed Standard on *Other Information in Documents Containing Audited Financial Statements*

- We believe the proposed standard should require auditors to perform additional minimal procedures that would help them fulfill the standard’s objectives. Such minimal procedures would include (1) informing management of the scope of the auditor’s responsibilities with regard to other information in documents that include financial statements and the auditor’s report thereon, and (2) asking whether management plans to issue other information in documents containing the financial statements and auditor’s report, and if so, to provide the other information to the auditor before it is issued. We propose including these new requirements in a new paragraph that would precede paragraph 6, and in a revision to paragraph 8, as indicated in the attachment to this letter.
- We recommend deleting paragraphs 13-14 of the proposed standard because they repeat guidance in AU section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report*, which is referenced in paragraph 12 of this proposed standard.

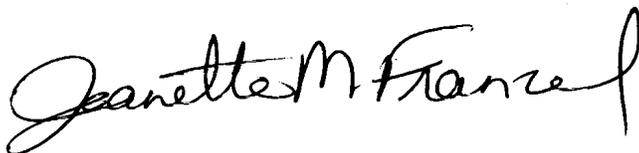
- We recommend adding to paragraph 17 procedures for an auditor to follow when (1) the auditor concludes after the report release date that there is a material misstatement of other information, and (2) management refuses to correct the misstatement. Specifically, we suggest requiring auditors to follow the provisions of paragraph 11 if the misstatement is identified on or before the report release date, and to follow the provisions of paragraph 12 if the misstatement is identified after the report release date.

Proposed Standard on *Other Information in Relation to the Financial Statements as a Whole*

- We recommend revising paragraph A4 to clarify that this guidance relates to opining on whether the information is fairly stated in relation to the financial statements as a whole rather than opining on whether the information itself is fairly stated.
- In the Illustrative Reporting Examples in Exhibit A of the proposed standard, the last two sentences of the auditor’s report use inconsistent language that could be confusing to users. The penultimate sentence states that the purpose of the engagement is to provide a basis for expressing an opinion on whether the other information is “not misstated,” while the final sentence opines that the information is “fairly stated.” We recommend using parallel language in these sentences and deleting the word “not” in the penultimate sentence of all the illustrative reports on pages 38-39 and in paragraph 7e of the proposed standard.

We thank you for considering our comments on these important issues.

Sincerely yours,



Jeanette Franzel
Managing Director
Financial Management and Assurance

Attachment

cc: Mr. Harold Monk, Chair
Auditing Standards Board

The Honorable Mark W. Olson, Chairman
Public Company Accounting Oversight Board

Prof. Arnold Schilder, Chair
International Auditing and Assurance Standards Board

EXPOSURE DRAFT

PROPOSED STATEMENTS ON AUDITING STANDARDS

REQUIRED SUPPLEMENTARY INFORMATION

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

OTHER INFORMATION IN RELATION TO THE FINANCIAL STATEMENTS AS A WHOLE

(To supersede Statement on Auditing Standards (SAS) No. 8, Other Information in Documents Containing Audited Financial Statements [AICPA, Professional Standards, vol. 1, AU sec. 550]; SAS No. 29, Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents [AICPA, Professional Standards, vol. 1, AU sec. 551]; and SAS No. 52, Omnibus Statement on Auditing Standards—1987, “Required Supplementary Information” [AICPA, Professional Standards, vol. 1, AU sec. 558])

JANUARY 21, 2009

Comments are requested by May 15, 2009

Prepared by the AICPA Auditing Standards Board for comment from persons interested in auditing and reporting issues.

Comments should be addressed to Mike Glynn at mglynn@aicpa.org,

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New York, NY 10036-8775

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to the following three proposed Statements on Auditing Standards (SASs):

- *Required Supplementary Information*
- *Other Information in Documents Containing Audited Financial Statements*
- *Other Information in Relation to the Financial Statements as a Whole*

These proposed SASs would supersede SAS No. 8, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 550); SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1, AU sec. 551); and SAS No. 52, *Omnibus Statement on Auditing Standards—1987, “Required Supplementary Information”* (AICPA, *Professional Standards*, vol. 1, AU sec. 558). The accompanying proposed SASs represent the redrafting of SAS No. 8; SAS No. 29; and SAS No. 52, “Required Supplementary Information,” in order to apply the Auditing Standards Board’s (ASB’s) clarity drafting conventions and converge with International Standards on Auditing (ISA), as discussed in the following sections.

Background

Clarity

To address concerns over the clarity, length, and complexity of its standards, the ASB is currently making a significant effort to clarify the SASs.¹ The ASB issued a discussion paper titled *Improving the Clarity of ASB Standards*² in March 2007. In response to the feedback received on the discussion paper and subsequent discussions with interested parties, the ASB has established clarity drafting conventions and has undertaken to revise all of its SASs in accordance with those conventions. The proposed SASs have been drafted in accordance with the ASB’s clarity drafting conventions, which include the following:

- Establishing objectives for each of the standards
- Including a definitions section, where relevant, in the standards
- Separating requirements from application and other explanatory material
- Numbering application and other explanatory material paragraphs using an A- prefix and presenting them in a separate section that follows the requirements section
- Using formatting techniques, such as bullet lists, to enhance readability
- Including, where appropriate, special considerations relevant to audits of smaller, less complex entities within the text of the standards
- Including, where appropriate, special considerations relevant to audits of governmental entities within the text of the standards

¹ The pamphlet “Clarification and Convergence” provides information about the ASB’s clarity project and can be viewed at [www.aicpa.org/download/auditstd/ASB_Clarify_%20and_Convergence_\(8.5x11\).pdf](http://www.aicpa.org/download/auditstd/ASB_Clarify_%20and_Convergence_(8.5x11).pdf).

² The discussion paper is available online at www.aicpa.org/download/auditstd/Clarity_of_ASB_Standards_Discussion_Memo.pdf.

Convergence

Consistent with the ASB's strategy to converge its standards with those of the International Auditing and Assurance Standards Board,³ the proposed SAS, *Other Information in Documents Containing Audited Financial Statements*, has been drafted using ISA 720 (Redrafted), *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements*, as a base. Differences between the proposed SAS and ISA 720 (Redrafted), for which the ASB believes no compelling reason exists, have been eliminated. Differences in objectives, definitions, or requirements between the proposed SAS and ISA 720 (Redrafted) are identified in exhibit B.

The ASB has made various changes to the language of the ISA to use terms or phrases that are more commonly used in the United States, and to tailor examples and guidance to the U.S. environment. The ASB believes that such changes will not create differences between the application of ISA 720 (Redrafted) and the application of the proposed SAS.

At the present time, no ISAs exist that correspond to the proposed SASs *Required Supplementary Information* or *Other Information in Relation to the Financial Statements as a Whole*.

Effective Date

The proposed SASs would be effective for audit engagements for periods beginning on or after December 15, 2009. Early application is permitted.

Changes From Existing Standards

Required Supplementary Information

The proposed SAS is being issued to supersede the requirements and guidance in AU section 558. The proposed statement will

- define *required supplementary information* as information that a designated accounting standard setter requires to accompany an entity's basic financial statements. Required supplementary information differs from other types of information outside the basic financial statements because a designated accounting standard setter considers the information an essential part of the financial reporting of certain entities and authoritative guidelines for the measurement and presentation of the information have been established.
- define *designated accounting standard setter* as a body designated by the AICPA council to establish accounting standards pursuant to Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, vol. 2, ET sec. 200), of the AICPA Code of Professional Conduct. Bodies designated by the AICPA council to establish accounting standards are listed in appendix A of the AICPA Code of Professional Conduct.
- establish the auditor's objective, with respect to required supplementary information, to communicate through a written report whether, based on the procedures performed by the auditor as prescribed by this standard, the auditor has identified any material modifications that should be made to the required supplementary information for it to conform with guidelines established by a designated accounting standard setter.

³ The ASB's convergence paper is available online at www.aicpa.org/download/auditstd/ASB_Convergence_Plan.pdf.

- establish a presumptively mandatory requirement, with respect to required supplementary information, for the auditor to
 - inquire of management about the methods of preparing the information.
 - compare the information for consistency with (1) management’s responses to the forgoing inquires, (2) audited financial statements, and (3) other knowledge obtained during the audit of the financial statements.
 - obtain written representations from management (1) that it acknowledges its responsibility for the required supplementary information; (2) that the required supplementary information is measured and presented within prescribed guidelines; (3) that the methods of measurement or presentation have not changed from those used in the prior period or, if the methods of measurement have changed, the reasons for such changes; and (4) about any significant assumptions underlying the measurement or presentation.
- establish a presumptively mandatory requirement for the auditor to include language in the auditor’s report on the financial statements when he or she is unable to complete the aforementioned procedures and consider whether management contributed to the auditor’s inability to complete the procedures.
- establish a presumptively mandatory requirement that the auditor include an explanatory paragraph in the auditor’s report on the financial statements to refer to the required supplementary information and establish presumptively mandatory reporting requirements when
 - the entity has presented all or some of the required supplementary information.
 - the entity has omitted all of the required supplementary information.

Other Information in Documents Containing Audited Financial Statements

The proposed SAS is being issued to supersede the requirements and guidance in AU section 550. Along with the proposed SAS, *Other Information in Relation to the Financial Statements as a Whole*, the proposed SAS also will supersede the requirements and guidance in AU section 551. The proposed statement will

- eliminate the distinction between other information that is included in an auditor-submitted document that contains the client’s basic financial statements and the auditor’s report thereon and other information that is in a client-prepared document.
- establish a presumptively mandatory requirement that the auditor read the other information to identify material inconsistencies with the financial statements.
- establish a presumptively mandatory requirement that the auditor make appropriate arrangements with management or those charged with governance to obtain the other information prior to the report release date.
- establish a presumptively mandatory requirement that the auditor communicate with those charged with governance the auditor’s responsibility with respect to the other information, any procedures performed relating to the other information, and the results. Additionally, when revision of the other information is necessary, but management refuses to make the revision, the proposed statement will establish a presumptively mandatory requirement that the auditor notify those charged with governance of the auditor’s concern regarding the other information.
- establish a presumptively mandatory requirement that, if material inconsistencies are identified, the auditor determine whether the financial statements or the other information needs to be revised. If prior to the report release date and management refuses to make the revision, the proposed statement will establish a presumptively

mandatory requirement that the auditor modify the auditor's report on the audited financial statements; communicate with those charged with governance; and, where permitted, withhold the report or withdraw from the engagement. If a material inconsistency is identified in other information obtained subsequent to the report release date, the proposed statement will establish a presumptively mandatory requirement that the auditor follow the requirements and guidance in AU section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (AICPA, *Professional Standards*, vol. 1). If management agrees to the revision, the proposed statement will establish a presumptively mandatory requirement that the auditor carry out the necessary procedures. If management refuses to make the revision, the proposed statement will establish a presumptively mandatory requirement that the auditor communicate with those charged with governance.

- establish a presumptively mandatory requirement that if a material misstatement of fact is identified that the auditor discuss the matter with management. If, after discussion, the auditor still believes that a material misstatement of fact exists, the proposed statement will establish a presumptively mandatory requirement that the auditor ask management to consult with a qualified third party and consider the advice received. If management refuses to correct the material misstatement of fact, the proposed statement will establish a presumptively mandatory requirement that the auditor communicate to those charged with governance and consider other actions.

Other Information in Relation to the Financial Statements as a Whole

The proposed SAS is being issued, along with the proposed SAS, *Other Information in Documents Containing Audited Financial Statements*, to supersede the requirements and guidance in AU section 551. The proposed statement will

- establish as a condition for opining on the fair presentation of other information in relation to the financial statements as a whole that
 - the other information was derived from and relates directly to the underlying accounting records used to prepare the financial statements.
 - the other information relates to the same period as the financial statements.
 - the financial statements were audited and the auditor served as the principal auditor in that engagement.
 - neither an adverse opinion nor a disclaimer of opinion was issued on the financial statements.
- establish a presumptively mandatory requirement that when engaged to opine on the fair presentation of other information in relation to the financial statements as a whole, in addition to the procedures performed during the audit of the financial statements, the auditor will
 - inquire of management about the purpose of the other information and the criteria under which it was prepared (for example, accounting principles generally accepted in the United States of America, regulator criteria, contractual agreement, or other).
 - obtain an understanding about the methods for preparing the other information.
 - compare and reconcile the other information to the underlying accounting records and other records used in preparing the financial statements or the financial statements themselves.

- inquire of management whether there were any significant assumptions or interpretations underlying the measurement or presentation of the other information.
- evaluate the appropriateness and completeness of the other information considering procedures and other knowledge obtained during the audit of the financial statements.
- obtain written representations from management.
- establish a presumptively mandatory requirement that when engaged to opine on the fair presentation of other information in relation to the financial statements as a whole, the auditor include an explanatory paragraph in the auditor's report that includes
 - a statement that the audit was performed for the purpose of forming an opinion on the financial statements as a whole.
 - a statement that the other information is presented for the purpose of additional analysis and is not a required part of the financial statements.
 - a statement that the other information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.
 - a statement that the other information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures.
 - a statement that the purpose of the additional procedures is to provide the auditor a basis for expressing an opinion on whether the other information is not misstated by an amount that would be material to the financial statements.
 - if an unqualified opinion on the financial statements is being issued, a statement that, in the auditor's opinion, the other information is fairly stated in all material respects in relation to the financial statements as a whole.
 - if a qualified opinion on the financial statements is being issued, a statement that, in the auditor's opinion, except for the effects on the other information of the qualification, the other information is fairly stated in all material respects in relation to the financial statements as a whole.
- establish a presumptively mandatory requirement that when engaged to opine on the fair presentation of other information in relation to the financial statements as a whole, the date of the auditor's opinion on the financial statements should not be earlier than the date the auditor completed the required procedures.

Guide for Respondents

The ASB is seeking comments specifically on changes resulting from applying the clarity drafting conventions and converging with the ISA, and their effect on the content of the proposed SAS, *Other Information in Documents Containing Audited Financial Statements*. Respondents are asked to respond, in particular, to the following questions:

- (1) Are the auditor's objectives appropriate?
- (2) Are the revisions from the existing standards to converge with ISA 720 (Redrafted) appropriate?
- (3) Are the differences between the proposed SAS, *Other Information in Documents Containing Audited Financial Statements*, and ISA 720 (Redrafted) identified in exhibit B, and other language changes, appropriate?

- (4) Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?

Comments are most helpful when they refer to specific paragraphs; include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view.

Written comments on the exposure drafts will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA for one year, beginning June 15, 2009. Responses should be sent to Mike Glynn at mglynn@aicpa.org and received by May 15, 2009.

Supplements to the Exposure Draft

To assist respondents in commenting on the proposed SASs, the Audit and Attest Standards staff has prepared the following supplementary material:

- a. A comparison of ISA 720 (Redrafted); the proposed SAS, *Other Information in Documents Containing Audited Financial Statements*; and extant AU section 550. The schedule has four columns containing the following:
 - i. ISA 720 (Redrafted).
 - ii. The proposed SAS, *Other Information in Documents Containing Audited Financial Statements*, marked to show differences in language between the ISA and the proposed SAS. New and deleted material is shown in colored track changes.
 - iii. The requirements and guidance in extant AU section 550, mapped against the proposed SAS to demonstrate how the material in AU section 550 has been reflected in the proposed SAS.
 - iv. Comments and rationale.
- b. Three separate mapping documents that map the following:
 - i. The requirements and guidance contained within AU section 550 to the proposed SAS, *Other Information in Documents Containing Audited Financial Statements*, in order to demonstrate how the material in AU section 550 has been reflected in the proposed SAS, *Other Information in Documents Containing Audited Financial Statements*
 - ii. The requirements and guidance contained within AU section 551 to the proposed SAS, *Other Information in Relation to the Financial Statements as a Whole*, in order to demonstrate how the material in AU section 551 has been reflected in the proposed SAS, *Other Information in Relation to the Financial Statements as a Whole*
 - iii. The requirements and guidance contained within AU section 558 to the proposed SAS, *Required Supplementary Information*, in order to demonstrate how the material in AU section 558 has been reflected in the proposed SAS, *Required Supplementary Information*

This staff-prepared supplementary material is for information purposes only and is not a part of the exposure drafts. However, it may be useful for respondents in formulating comments and is available on the AICPA Web site at

<http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Improving+the+Clarity+of+ASB+Standards/default>

Comment Period

The comment period for these exposure drafts ends on May 15, 2009.

**Auditing Standards Board
(2008–2009)**

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**PROPOSED STATEMENT ON AUDITING STANDARDS,
REQUIRED SUPPLEMENTARY INFORMATION**

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Proposed Statement on Auditing Standards, *Required Supplementary Information*

Introduction

Scope of This Statement on Auditing Standards

1. This Statement on Auditing Standards (SAS) addresses the auditor's responsibility in relation to information supplementary to the basic financial statements that is required by a designated accounting standard setter to accompany such financial statements (hereinafter referred to as required supplementary information). In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion does not cover required supplementary information. (Ref: par. A1–A3)

Effective Date

2. This SAS is effective for audit engagements for periods beginning on or after December 15, 2009. Early application is permitted.

Objective

3. The objective of the auditor is to communicate through a written report whether, based on the procedures performed by the auditor as prescribed by this standard, the auditor has identified any material modifications that should be made to the required supplementary information for it to conform with guidelines established by a designated accounting standard setter.

Definitions

4. For purposes of generally accepted auditing standards (GAAS), the following terms have the meanings attributed as follows:

Required supplementary information. Information that a designated accounting standard setter requires to accompany an entity's basic financial statements. Required supplementary information differs from other types of information outside the basic financial statements because a designated accounting standard setter considers the information an essential part of the financial reporting of certain entities and because authoritative guidelines for the measurement and presentation of the information have been established. (Ref. par. A6)

Designated accounting standard setter. A body designated by the AICPA council to establish accounting standards pursuant to Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, vol. 2, ET sec. 200), of the AICPA Code of Professional Conduct. Bodies designated by the AICPA council to establish accounting standards are listed in appendix A of the AICPA Code of Professional Conduct.

Basic financial statements. Financial statements presented in accordance with an applicable financial reporting framework as established by a designated accounting standard setter, excluding required supplementary information.

Applicable financial reporting framework. A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements (for example, accounting principles generally accepted in the United States of America, International Financial Reporting Standards issued by the International Accounting Standards Board, or comprehensive bases of accounting other than generally accepted accounting principles).

Requirements

Procedures

5. The auditor should apply the following procedures to required supplementary information:
 - a. Inquire of management about the methods of preparing the information, including (1) whether it has been prepared in accordance with prescribed guidelines, (2) whether methods of measurement or presentation have been changed from those used in the prior period and the reasons for any such changes, and (3) whether there were any significant assumptions or interpretations underlying the measurement or presentation of the information
 - b. Compare the information for consistency with (1) management's responses to the foregoing inquiries, (2) audited financial statements, and (3) other knowledge obtained during the audit of the financial statements
 - c. Obtain written representations from management (1) that it acknowledges its responsibility for the required supplementary information; (2) that the required supplementary information is measured and presented within prescribed guidelines; (3) that the methods of measurement or presentation have not changed from those used in the prior period or, if the methods of measurement or presentation have changed, the reasons for such changes; and (4) about any significant assumptions or interpretations underlying the measurement or presentation¹
6. If the auditor is unable to complete the procedures discussed in paragraph 5, the auditor should report in accordance with paragraph 8*d* and consider whether management contributed to the auditor's inability to complete the procedures. If the auditor concludes that the inability to complete the procedures was due to significant difficulties encountered in dealing with management, the auditor should inform those charged with governance.²

Reporting

7. The auditor should include an explanatory paragraph in the auditor's report to refer to the required supplementary information. The explanatory paragraph should include language to explain the following circumstances:
 - a. The required supplementary information is included and the auditor has applied the required procedures.
 - b. The required supplementary information is omitted.
 - c. Some required supplementary information is missing and some is presented within the guidelines.
 - d. The auditor has identified material departures from the applicable financial reporting framework.
 - e. The auditor is unable to complete the prescribed procedures.
 - f. The auditor has unresolved doubts about whether the required supplementary information conforms to prescribed guidelines.

¹ See AU section 333, *Management Representations* (AICPA, *Professional Standards*, vol. 1), for additional requirements and guidance with respect to obtaining written representations from management as part of an audit of financial statements performed in accordance with generally accepted auditing standards.

² See AU section 380, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*, vol. 1), paragraph .39 for additional guidance when the auditor encounters significant difficulties in dealing with management during the audit.

8. If the entity has presented all or some of the required supplementary information, the explanatory paragraph should include the following elements:
- a. A statement that *[identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* require that the *[identify the required supplementary information]* be presented to supplement the basic financial statements. (Ref: par. A4)
 - b. A statement that such information, although not a part of the basic financial statements, is required by *[designated accounting standard setter]* who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context.
 - c. If the auditor is able to complete the prescribed procedures in paragraph 5,
 - i. a statement that the auditor has applied limited procedures, which consisted of inquiries of management and other limited procedures, as prescribed by auditing standards generally accepted in the United States of America regarding the methods of measurement and presentation of the required supplementary information.
 - ii. a statement that the limited procedures do not provide the auditor with evidence sufficient to express an opinion or any other form of assurance on the information.
 - d. If the auditor is unable to complete the prescribed procedures in paragraph 5,
 - i. a statement that the auditor was unable to apply to the information certain limited procedures prescribed by auditing standards generally accepted in the United States of America because *[state the reasons]* and that, therefore, the auditor is unable to determine whether material modifications should be made to the information for it to conform with guidelines established by *[designated accounting standard setter]*.
 - ii. a statement that the auditor does not express an opinion or any other form of assurance on the information.
 - e. If some of the required supplementary information is omitted,
 - i. a statement that management has elected to omit *[description of the missing required supplementary information]* that *[identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* require to be presented to supplement the basic financial statements.
 - ii. a statement that such missing information, although not a part of the basic financial statements, is required by *[designated accounting standard setter]* who considers it to be an essential part of financial reporting and for placing the basic financial statements and related notes in an appropriate operational, economic, or historical context.
 - iii. a statement that although the auditor's opinion on the basic financial statements is not affected by the missing information, the entity has not complied with *[identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* because they have not presented such required supplementary information.
 - f. If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, a statement that, based on the auditor's limited procedures, the auditor identified material departures from *[identify the applicable financial reporting framework (for example, generally accepted*

accounting principle [GAAP]] [describe the material departures from the applicable financial reporting framework].

- g. If the auditor has unresolved doubts about whether the required supplementary information conforms to prescribed guidelines, a statement that the results of the limited procedures have raised doubts that the auditor was unable to resolve regarding whether material modifications should be made to the information for it to conform with guidelines established by [*designated accounting standard setter*].

(Ref: par. A5)

9. If all of the required supplementary information is omitted, the explanatory paragraph should include the following elements:
- a. A statement that management has elected to omit [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements
 - b. A statement that such missing information, although not a part of the basic financial statements, is required by [*designated accounting standard setter*] who considers it to be an essential part of financial reporting and for placing the basic financial statements and related notes in an appropriate operational, economic, or historical context
 - c. A statement that although the auditor's opinion on the basic financial statements is not affected by the missing information, the entity has not complied with [*identify the applicable financial reporting framework (for example, GAAP)*] because they have not presented such required supplementary information

Application and Other Explanatory Material

Scope of This Statement on Auditing Standards (Ref: par. 1)

- A1. The auditor's responsibility for other information that is not required by a designated accounting standard setter is specified in the proposed SAS, *Other Information in Documents Containing Audited Financial Statements*.
- A2. In conjunction with the audit of the financial statements, the auditor may subject the required supplementary information to certain auditing procedures. If such additional procedures are sufficient to enable the auditor to express an opinion on whether the information is fairly stated in all material respects in relation to the financial statements as a whole, the auditor may expand the audit report in accordance with the proposed SAS, *Other Information in Relation to the Financial Statements as a Whole*.
- A3. ~~The auditor may be engaged to express an opinion on specified elements, accounts, or items of financial statements for the purpose of a separate presentation in accordance with paragraphs .11-.18 of AU section 623, *Special Reports* (AICPA, *Professional Standards*, vol. 1). The auditor also may be engaged to examine the information or an assertion related to the information in accordance with the attestation standards.~~

Reporting (Ref: par. 7-9)

- A4. The auditor may identify the United States of America as the country of origin of GAAS by referencing "U.S. generally accepted auditing standards" or similar wording.
- A5. Because the required supplementary information accompanies the basic financial statements, the auditor's report includes a discussion of the responsibility taken by the auditor on that information. However, because the required supplementary information is

If an auditor is engaged to express an opinion on whether the required supplementary information is fairly presented in all material respects in conformity with the basis of accounting, then the provisions of paragraphs .11-.18 of AU section 623, *Special Reports* (AICPA, *Professional Standards*, vol. 1) would apply. If an auditor is engaged to examine the required supplementary information or an assertion related to the required supplementary information in accordance with the attestation standards, those standards would apply.

not part of the basic financial statements, the auditor's opinion on the fairness of presentation of such financial statements in conformity with the applicable financial reporting framework is not affected by the presentation of the required supplementary information. Furthermore, if the required supplementary information is omitted by the entity, the auditor does not have a responsibility to present that information.

Considerations Specific to Governmental Entities (Ref. par. 4)

A6. In audits of the governmental entities, the provisions of this standard may be relevant to required supplementary information such as management's discussion and analysis and budgetary information.

A6.

Exhibit A: Examples of Explanatory Paragraphs That Refer to the Required Supplementary Information or to the Auditor's Limited Procedures

The Required Supplementary Information is Included and the Auditor Has Applied the Required Procedures

[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America [GAAP])] require that the [identify the supplementary information] on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by [designated accounting standard setter] who considers it to be an essential part of financial reporting and for placing the basic financial statements and related notes in an appropriate operational, economic, or historical context. We have applied certain limited procedures, which consisted of inquiries of management and other limited procedures as prescribed by auditing standards generally accepted in the United States of America, regarding the methods of measurement and presentation of the required supplementary information. These limited procedures do not provide us with evidence sufficient to express an opinion or any other form of assurance on the information.

The Required Supplementary Information is Omitted

Management has elected to omit *[describe the missing required supplementary information]* that *[identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America [GAAP])]* require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by *[designated accounting standard setter]* who considers it to be an essential part of financial reporting and for placing the basic financial statements and related notes in an appropriate operational, economic, or historical context. Although our opinion on the basic financial statements is not affected by this missing information, the *[name of entity]* has not complied with *[identify the applicable financial reporting framework]* because they have not presented such required supplementary information.

Some Required Supplementary Information is Missing and Some is Presented Within the Guidelines

[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America [GAAP])] require that *[identify the included supplementary information]* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by *[designated accounting standard setter]* who considers it to be an essential part of financial reporting and for placing the basic financial statements and related notes in an appropriate operational, economic, or historical context. We have applied certain limited procedures, which consisted of inquires of management and other limited procedures as prescribed by auditing standards generally accepted in the United States of America, regarding the methods of measurement and presentation of the required supplementary information. These limited procedures do not provide us with evidence sufficient to express an opinion or any other form of assurance on the information.

Management has elected to omit *[describe the missing required supplementary information]* that *[identify the applicable financial reporting framework]* requires to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by *[designated accounting standard setter]* who considers it to be an essential part of financial reporting and for placing the basic financial statements and related notes in an appropriate operational, economic, or historical context. Although our opinion on the basic

financial statements is not affected by this missing information, *[the entity]* has not complied with *[identify the applicable financial reporting framework]* because they have not presented such required supplementary information.

The Auditor Has Identified Material Departures From Generally Accepted Accounting Principles

[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America [GAAP])] require that the *[identify the supplementary information]* on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by *[designated accounting standard setter]* who considers it to be an essential part of financial reporting and for placing the basic financial statements and related notes in an appropriate operational, economic, or historical context. We have applied certain limited procedures, which consisted of inquiries of management and other limited procedures as prescribed by auditing standards generally accepted in the United States of America, regarding the methods of measurement and presentation of the required supplementary information. Based on our limited procedures, we have identified the following material departures from *[identify the applicable financial reporting framework]* *[identify the required supplementary information and describe the material departures from the applicable financial reporting framework]*. These limited procedures do not provide us with evidence sufficient to express an opinion or any other form of assurance on the information.

Prescribed Procedures Not Completed

[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America [GAAP])] require that the *[identify the supplementary information]* on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by *[designated accounting standard setter]* who considers it to be an essential part of financial reporting and for placing the basic financial statements and related notes in an appropriate operational, economic, or historical context. We were unable to apply to the information certain limited procedures prescribed by auditing standards generally accepted in the United States of America because *[state the reasons]* and, therefore, we are unable to determine whether material modifications should be made to the information for it to conform with guidelines established by *[designated accounting standard setter]*. We do not express an opinion or any other form of assurance on the information.

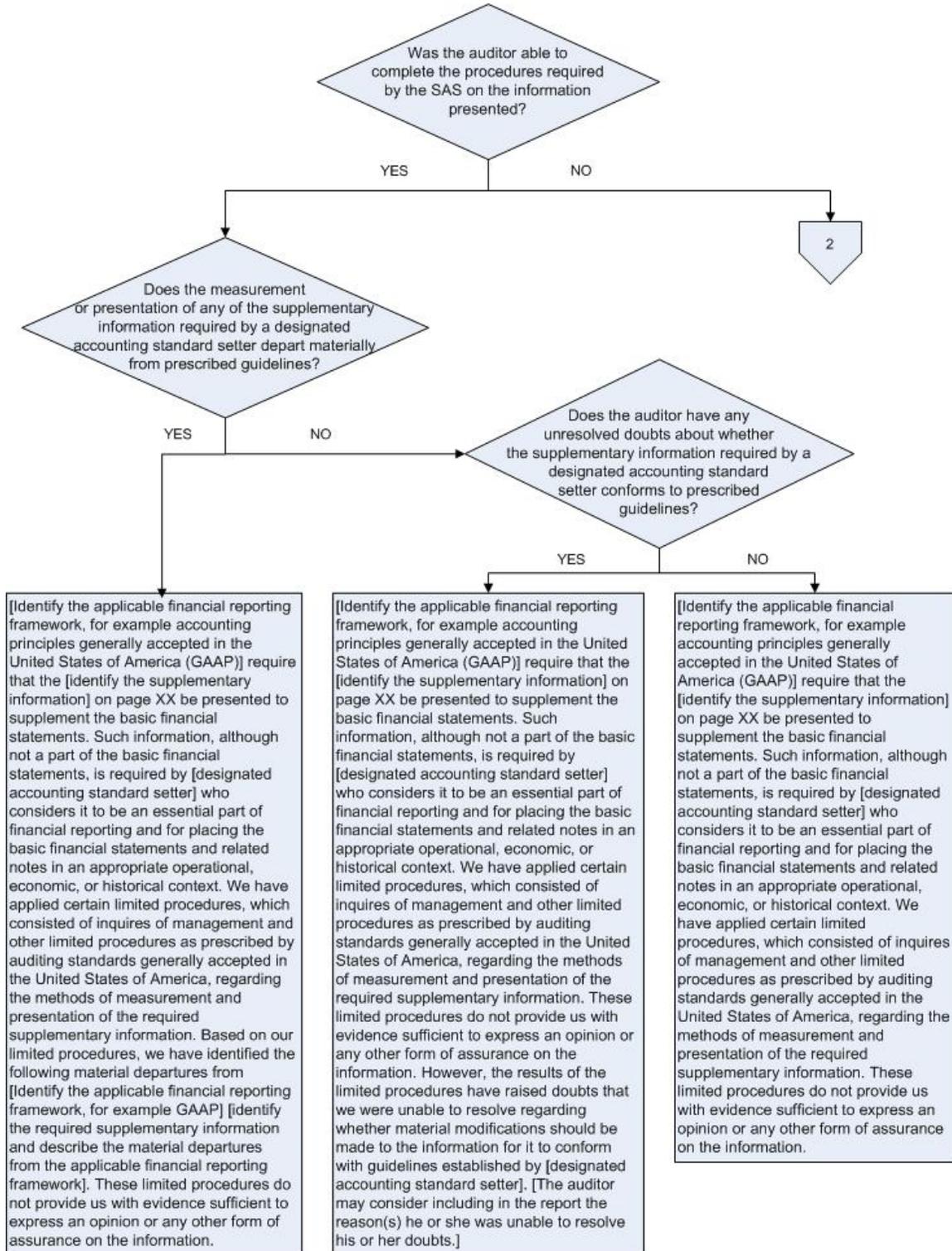
Unresolved Doubts About Whether the Required Supplementary Information Conforms to Prescribed Guidelines

[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America [GAAP])] require that the *[identify the supplementary information]* on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by *[designated accounting standard setter]* who considers it to be an essential part of financial reporting and for placing the basic financial statements and related notes in an appropriate operational, economic, or historical context. We have applied certain limited procedures, which consisted of inquiries of management and other limited procedures as prescribed by auditing standards generally accepted in the United States of America, regarding the methods of measurement and presentation of the required supplementary information. These limited procedures do not provide us with evidence sufficient to express an opinion or any other form of assurance on the information. However, the results of the limited procedures have raised doubts that we were unable to resolve regarding whether material modifications should be made to the information for it to conform with guidelines established by *[designated accounting standard setter]*. *[The auditor may consider including in the report the reason(s) he or she was unable to resolve his or her doubts.]*

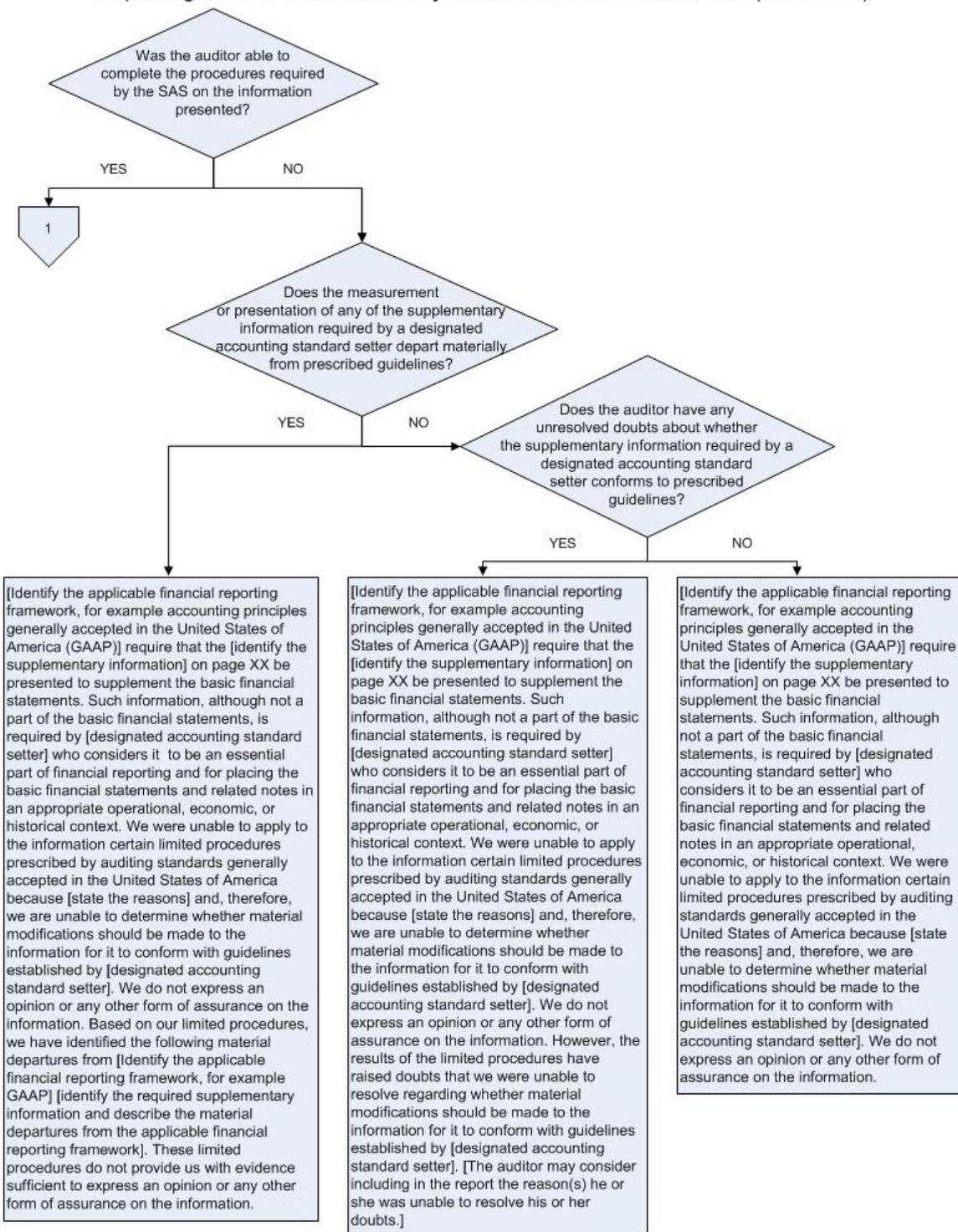
A7.

Exhibit B: Required Supplementary Information—Reporting Decision Tree

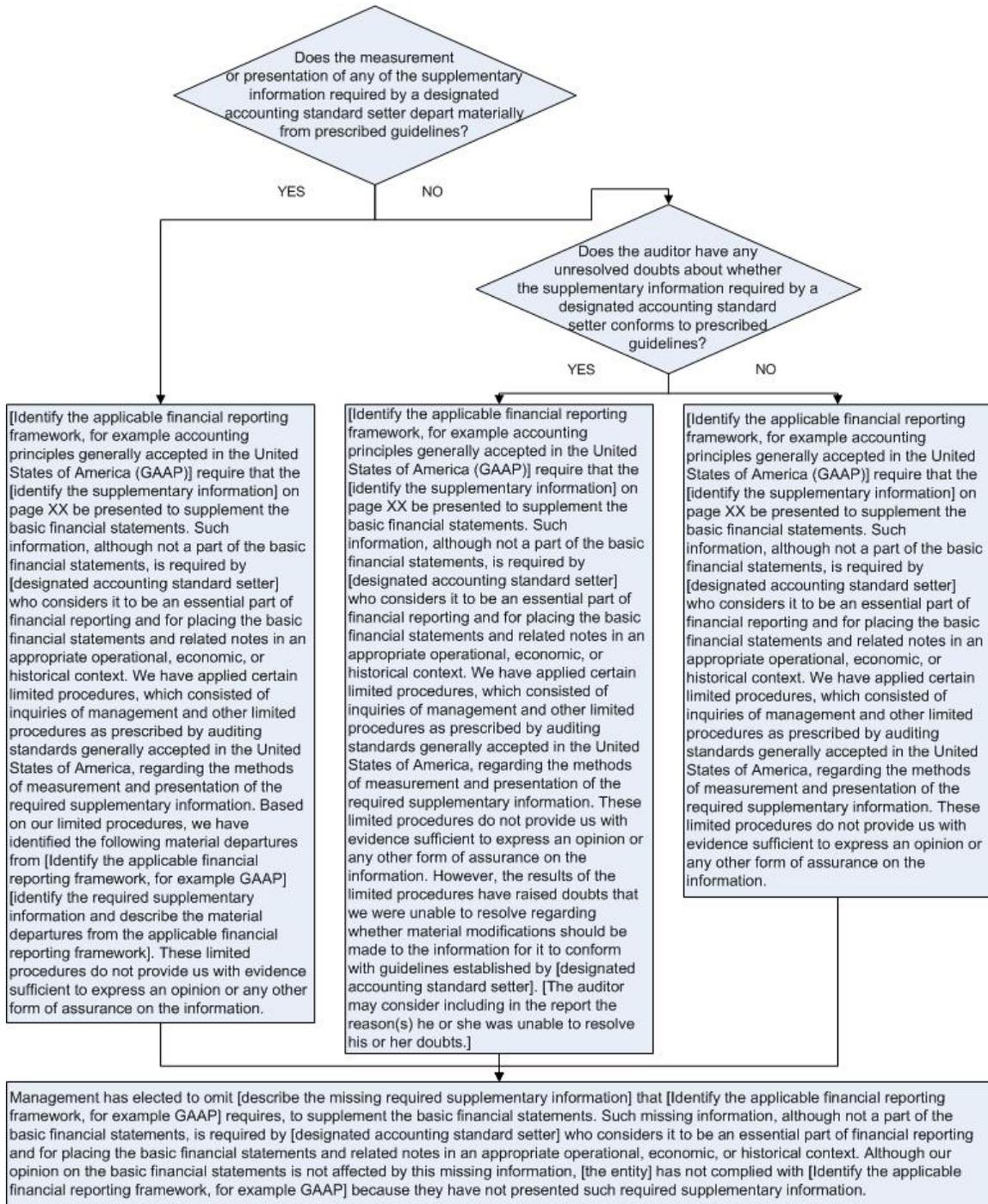
Reporting on RSI When the Entity Has Presented All of the RSI



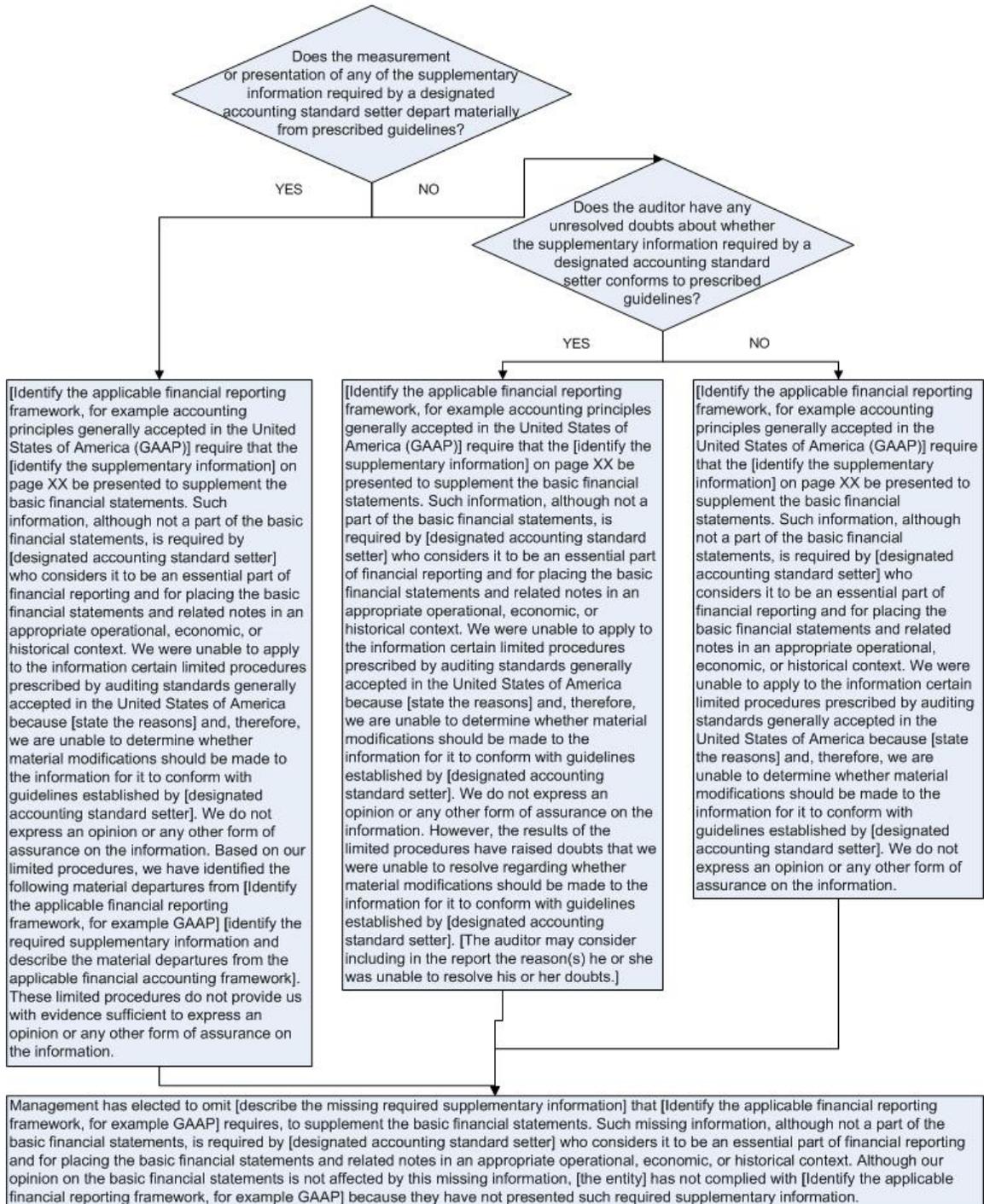
Reporting on RSI When the Entity Has Presented All of the RSI (continued)



Reporting on RSI When the Entity Has Omitted Some, But Not All of the RSI
The Auditor Was Able to Complete the Procedures Required by the SAS



Reporting on RSI When the Entity Has Omitted Some, But Not All of the RSI The Auditor Was Unable to Complete the Procedures Required by the SAS



**PROPOSED STATEMENT ON AUDITING STANDARDS, OTHER
INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL
STATEMENTS**

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Proposed Statement on Auditing Standards, *Other Information in Documents Containing Audited Financial Statements*

Introduction

Scope of This Statement on Auditing Standards

1. This Statement on Auditing Standards (SAS) addresses the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon. In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion does not cover other information and the auditor has no responsibility for determining whether such information is properly stated. This SAS establishes the requirement for the auditor to read the other information of which he or she is aware because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information. (Ref: par. A1–A4)
2. In this SAS, *documents containing audited financial statements* refers to annual reports (or similar documents) that are issued to owners (or similar stakeholders) and annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public that contain audited financial statements and the auditor's report thereon. This SAS also applies to other documents to which the auditor, at the client's request, devotes attention. (Ref: par. A5)

Effective Date

3. This SAS is effective for audit engagements for periods beginning on or after December 15, 2009. Early application is permitted.

Objective

4. The objective of the auditor is to respond appropriately when he or she becomes aware that documents containing audited financial statements and the auditor's report thereon include other information that could undermine the credibility of those financial statements and the auditor's report.

Definitions

5. For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
 - Other information.** Financial and nonfinancial information (other than the financial statements and the auditor's report thereon) that is included in a document containing audited financial statements and the auditor's report thereon but is not required by a designated accounting standard setter.
 - Designated accounting standard setter.** A body designated by the AICPA council to establish accounting standards pursuant to Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, vol. 2, ET sec. 200), of the AICPA Code of Professional Conduct. Bodies designated by the AICPA council to establish accounting standards are listed in appendix A of the AICPA Code of Professional Conduct.
 - Inconsistency.** Other information that conflicts with information contained in the audited 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.

The auditor should ask whether management plans to issue other information with the financial statements and auditor's report, and if so, to provide the other information to the auditor before it is issued.

Misstatement of fact. Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements.

Requirements

Reading Other Information

6. The auditor should read the other information ~~of which he or she is aware~~ in order to identify material inconsistencies, if any, with the audited financial statements. (Ref: par. A6)
7. The auditor should make appropriate arrangements with management or those charged with governance to obtain the other information prior to the report release date.¹ If it is not possible to obtain all of the other information prior to the report release date, the auditor should read such other information as soon as practicable. (Ref: par. A7)
8. The auditor should communicate with those charged with governance the auditor's responsibility with respect to the other information, any procedures performed relating to the other information, and the results.

management and

Material Inconsistencies

9. If, on reading the other information, the auditor identifies a material inconsistency, the auditor should determine whether the audited financial statements or the other information needs to be revised.

Material Inconsistencies Identified in Other Information Obtained Prior to the Report Release Date

10. When revision of the audited financial statements is necessary and management refuses to make the revision, the auditor should modify the auditor's report² in accordance with AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1).
11. When revision of the other information is necessary and management refuses to make the revision, the auditor should
 - a. include in the auditor's report an explanatory paragraph describing the material inconsistency in accordance with paragraph .11 of AU section 508;
 - b. withhold the auditor's report; or
 - c. where withdrawal is legally permitted, withdraw from the engagement.

(Ref: par. A8–A9)

Material Inconsistencies Identified in Other Information Obtained Subsequent to the Report Release Date

12. If the auditor becomes aware of other information subsequent to the report release date and revision of the audited financial statements is necessary, the auditor should refer to the

¹ Report release date is defined in AU section 339, *Audit Documentation* (AICPA, *Professional Standards*, vol. 1), paragraph .23 as the date the auditor grants the entity permission to use the auditor's report in connection with the financial statements.

² See AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1), for requirements and guidance on auditor's reports.

relevant guidance in AU section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (AICPA, *Professional Standards*, vol. 1).

- ~~13. When revision of the other information is necessary and management agrees to make the revision, the auditor should carry out the procedures necessary under the circumstances. (Ref: par. A10)~~
- ~~14. When revision of the other information is necessary but management refuses to make the revision, the auditor should consider further action. (Ref: par. A11)~~

Material Misstatements of Fact

15. If, on reading the other information for the purpose of identifying material inconsistencies, the auditor becomes aware of an apparent material misstatement of fact, the auditor should discuss the matter with management. (Ref: par. A12) believes
16. When, following such discussions, the auditor still ~~considers~~ that there is an apparent material misstatement of fact, the auditor should request management to consult with a qualified third party, such as the entity's legal counsel, and the auditor should ~~consider~~ the advice received. evaluate
17. When the auditor concludes that there is a material misstatement of fact in the other information that management refuses to correct, ~~the action he or she takes will depend on his or her judgment in the particular circumstances. The auditor should consider steps such as notifying the client in writing of his or her views concerning the information and consulting his or her legal counsel about further appropriate action in the circumstances.~~ (Ref: par. A13)

the auditor should

- a. follow the provisions of paragraph 11 if the misstatement is identified on or before the report release date, or
- b. follow the provisions of paragraph 12 if the misstatement is identified after the report release date.

Application and Other Explanatory Material

Scope of This Statement on Auditing Standards (Ref: par. 1–2)

- A1. The information covered by this SAS also includes other information for which a designated accounting standard setter has issued standards or guidance regarding the format and content when such information is voluntarily presented in a document containing the audited financial statements and the auditor's report thereon. The auditor's responsibility for other information presented in a document containing audited financial statements that is required by a designated accounting standard setter to be included is specified in the proposed SAS, *Required Supplementary Information*.
- A2. ~~The auditor may be engaged to express an opinion on specified elements, accounts, or items of financial statements for the purpose of a separate presentation in accordance with paragraphs .11-.18 of AU section 623, *Special Reports* (AICPA, *Professional Standards*, vol. 1). The auditor also may be engaged to examine the information or an assertion related to the information in accordance with the attestation standards.~~
- A3. Other information may comprise the following:
 - A report by management or those charged with governance on operations
 - Financial summaries or highlights
 - Employment data
 - Planned capital expenditures
 - Financial ratios
 - Names of officers and directors
 - Selected quarterly data

If an auditor is engaged to express an opinion on whether the other information is fairly presented in all material respects in conformity with the basis of accounting then the provisions of paragraphs .11-.18 of AU section 623, *Special Reports* (AICPA, *Professional Standards*, vol. 1) would apply. If the auditor is engaged to examine the information or an assertion related to the information in accordance with the attestation standards, those standards would apply.

The provisions of this standard apply to other information in documents containing audited financial statements and the related auditor's report, regardless of the medium. For example, this standard would apply to information issued with the financial statements and the related auditor's report on a website.

~~A4. For purposes of the SASs, other information does not encompass the following:~~

- ~~• A press release or similar memorandum or cover letter accompanying the document containing audited financial statements and the auditor's report thereon~~
- ~~• Information contained on the entity's Web site~~

, performance and
accountability reports,

Considerations Specific to Governmental Entities (Ref: par. 2)

A5. The term *annual reports of governments* is intended to include comprehensive annual reports or other annual financial reports that include the government's financial statements and the auditor's report thereon.

Reading Other Information (Ref: par. 6–7)

A6. The auditor is not required to reference the other information in the auditor's report on the financial statements. However, the auditor may include an explanatory paragraph disclaiming an opinion on the other information. For example, an auditor may choose to include a disclaimer on the other information when the auditor believes that he or she could be associated with the information and the user may infer a level of assurance that is not intended.

A7. Obtaining the other information prior to the report release date enables the auditor to resolve apparent material inconsistencies and material misstatements of fact with management on a timely basis. An agreement with management regarding when other information will be available may be helpful. The auditor may consider delaying the release of the auditor's report until the client provides the other information to the auditor.

Material Inconsistencies

Material Inconsistencies Identified in Other Information Obtained Prior to the Report Release Date (Ref: par. 11)

A8. When management refuses to revise the other information, the auditor may base any decision on what further action to take on advice from the auditor's legal counsel.

Considerations Specific to Governmental Entities

A9. In audits of governmental entities, withdrawal from the engagement or withholding the auditor's report may not be options. In such cases, the auditor may issue a report to those charged with governance and the appropriate statutory body, if applicable, giving details of the inconsistency.

Material Inconsistencies Identified in Other Information Obtained Subsequent to the Report Release Date

A10. When management agrees to revise the other information and the auditor's report has been issued, the auditor's procedures may include reviewing the steps taken by management to inform individuals in receipt of the previously issued financial statements, the auditor's report thereon, and the other information of the revision. (Ref: par. 13)

A11. When management refuses to make the revision of such other information that the auditor concludes is necessary, appropriate further actions by the auditor may include obtaining advice from the auditor's legal counsel, withholding the auditor's report if such report has not been issued, or withdrawing from the engagement. (Ref: par. 14)

Material Misstatements of Fact (Ref: par. 15–17)

- A12.** When discussing an apparent material misstatement of fact with management, the auditor may not be able to evaluate the validity of some disclosures included within the other information and management's responses to the auditor's inquiries and may conclude that valid differences of judgment or opinion exist.
- A13.** When the auditor concludes that there is a material misstatement of fact that management refuses to correct, appropriate further actions by the auditor may include obtaining advice from the auditor's legal counsel, withholding the auditor's report if such report has not been issued, or withdrawing from the engagement.

A14.

Exhibit A: Example of an Explanatory Paragraph to Disclaim an Opinion on Other Information

The following is an example of an explanatory paragraph that the auditor may use to disclaim an opinion on other information:

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The [*identify the other information*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

A15.

Exhibit B: Comparison of Proposed Statement on Auditing Standards, *Other Information in Documents Containing Audited Financial Statements*, With International Standards on Auditing 720 (Redrafted), *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements*

This analysis was prepared by the Audit and Attest Standards staff to highlight substantive differences between the proposed Statement on Auditing Standards (SAS), *Other Information in Documents Containing Audited Financial Statements*, with International Standards on Auditing (ISA) 720 (Redrafted), *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements*, and the rationale therefore. This analysis is not authoritative and is prepared for informational purposes only. It has not been acted on or reviewed by the Auditing Standards Board (ASB).

The ASB has made various changes to the language throughout the proposed SAS, *Other Information in Documents Containing Audited Financial Statements*, in comparison with ISA 720 (Redrafted), *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements*. The changes to the proposed SAS include the following:

- In paragraph 2, adding clarifying language that documents containing audited financial statements refers to “annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public” and that the SAS also applies to “other documents to which the auditor, at the client’s request, devotes attention”
- In paragraph 5, deleting the phrase “either by law, regulation or custom” from the definition of *other information* to avoid confusion with required supplementary information
- In paragraph 12, changing “When revision of the other information is necessary” to “if the auditor becomes aware of other information subsequent to the report release date and revision of the audited financial statements is necessary” to clarify that the auditor has become aware of the other information subsequent to the report release date
- In paragraph 14, changing “take any further appropriate action” to “consider further action”
- Moving all requirements with respect to communications with those charged with governance to paragraph 8

Such changes have been made to make the proposed SAS easier to read and apply. The ASB believes that such changes will not create differences between the application of ISA 720 (Redrafted) and the application of the proposed SAS.

The proposed SAS limits the auditor’s objective to respond appropriately (in paragraph 4) and the requirement to read the other information (in paragraph 6) to when the auditor becomes aware that documents containing audited financial statements and the auditor’s report thereon include other information that could undermine the credibility of those financial statements and the auditor’s report. ISA 720 (Redrafted) does not limit the auditor’s obligation to instances when the auditor becomes aware of the other information. The ASB believes that this limitation is appropriate in the U.S. legal environment.

The proposed SAS applies the requirements in paragraphs 10–14 to the *report release date*, but ISA 720 (Redrafted) applies the corresponding requirements to the *date of the auditor’s report*. The ASB determined that the report release date is more appropriate in the U.S. environment.

The proposed SAS contains the essential guidance (in paragraph 17) that “the action [the auditor] takes will depend on his or her judgment in the particular circumstances” and contains a requirement, not included in ISA 720 (Redrafted), for the auditor to consider steps such as notifying the client in writing of the auditor’s views concerning the information and consulting with legal counsel about further appropriate action in the circumstances. The ASB determined that the requirement for the auditor to consider the steps included in the proposed SAS is appropriate in the U.S. environment.

**PROPOSED STATEMENT ON AUDITING STANDARDS, OTHER
INFORMATION IN RELATION TO THE FINANCIAL STATEMENTS AS A
WHOLE**

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Proposed Statement on Auditing Standards, *Other Information in Relation to the Financial Statements as a Whole*

Introduction

Scope of This Statement on Auditing Standards

1. This Statement on Auditing Standards (SAS) addresses the auditor's responsibility when engaged to opine on whether other information is fairly stated, in all material respects, in relation to the financial statements as a whole. This SAS also may be applied when the auditor is engaged to opine on whether required supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. (Ref: par. A1–A5)

Effective Date

2. This SAS is effective for audit engagements for periods beginning on or after December 15, 2009. Early application is permitted.

Objective

3. The objective of the auditor is to evaluate and report on whether other information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Definitions

4. For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
 - Other information.** Financial and nonfinancial information (other than the financial statements and the auditor's report thereon) that is included in a document containing audited financial statements and the auditor's report thereon but is not required by a designated accounting standard setter.
 - Required supplementary information.** Information that a designated accounting standard setter requires to accompany an entity's basic financial statements. Required supplementary information differs from other types of information outside the basic financial statements because a designated accounting standard setter considers the information an essential part of the financial reporting of certain entities and because authoritative guidelines for the measurement and presentation of the information have been established.
 - Designated accounting standard setter.** A body designated by the AICPA council to establish accounting standards pursuant to Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, vol. 2, ET sec. 200), of the AICPA Code of Professional Conduct. Bodies designated by the AICPA council to establish accounting standards are listed in appendix A of the AICPA Code of Professional Conduct.

Requirements

Procedures to Determine Whether Other Information is Fairly Stated, in All Material Respects, in Relation to the Financial Statements as a Whole (Ref. par. A6–A11)

5. In order to opine on whether other information is fairly stated, in all material respects, in relation to the financial statements as a whole, the auditor should determine the following:
 - a. The other information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

- b. The other information relates to the same period as the financial statements.
 - c. The financial statements were audited and the auditor served as the principal auditor in that engagement.
 - d. Neither an adverse opinion nor a disclaimer of opinion was issued on those financial statements.
6. In addition to the procedures performed during the audit of the financial statements, in order to opine on whether other information is fairly stated, in all material respects, in relation to the financial statements as a whole, the auditor should perform the following additional procedures:
- a. Inquire of management about the purpose of the other information and whether it has been prepared in accordance with generally accepted accounting principles, criteria established by a regulator, a contractual agreement, or other requirements
 - b. Obtain an understanding about the methods of preparing the information, including whether the form and content complies with established criteria for such information
 - c. Compare and reconcile information to the underlying accounting and other records used in preparing the financial statements or to the financial statements themselves
 - d. Inquire of management whether there were any significant assumptions or interpretations underlying the measurement or presentation of the information
 - e. Evaluate the appropriateness and completeness of the information, considering procedures and other knowledge obtained during the audit of the financial statements
 - f. Obtain written representations from management (1) that it acknowledges its responsibility for the other information; (2) that the form and content of the other information is in accordance with prescribed guidelines; (3) that the methods of measurement or presentation have not changed from those used in the prior period or, if the methods of measurement or presentation have changed, the reasons for such changes; and (4) about any significant assumptions or interpretations underlying the measurement or presentation

Reporting

7. When engaged to opine on other information in relation to the financial statements as a whole and the entity presents other information with the financial statements, the auditor should include an explanatory paragraph in the auditor's report on the financial statements. The explanatory paragraph should include the following elements:
- a. A statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole
 - b. A statement that the other information is presented for purposes of additional analysis and is not a required part of the financial statements
 - c. A statement that the other information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements
 - d. A statement that the other information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements and other additional procedures as prescribed by auditing standards generally accepted in the United States of America
 - e. A statement that the purpose of the additional procedures is to provide the auditor with a basis for expressing an opinion on whether the other information is **not** misstated by an amount that would be material to the financial statements

If an auditor is engaged to express an opinion on whether the other information is fairly presented in all material respects in conformity with the basis of accounting then the provisions of paragraphs .11-.18 AU section 623, *Special Reports* (AICPA, *Professional Standards*, vol. 1) would apply. If the auditor is engaged to examine the other information or an assertion related to the other information in accordance with the attestation standards, those standards would apply.

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whether

- f. ~~If the auditor has issued~~ or is issuing an unqualified opinion on the financial statements, a statement ~~that~~, in the auditor's opinion, the other information is fairly stated in all material respects in relation to the financial statements as a whole
 - g. If the auditor is issuing a qualified opinion on the financial statements, a statement that, in the auditor's opinion, except for the effects on the other information of (refer to the paragraph in the auditor's report explaining the qualification), such information is fairly stated in all material respects in relation to the financial statements as a whole
8. The auditor should disclaim an opinion on the other information in those instances where a disclaimer of opinion was issued on the financial statements.
 9. When engaged to opine on the other information in relation to the financial statements as a whole and the entity does not present the other information with the financial statements, the auditor should include the required reporting in a separate report on the other information. In addition to the requirements in paragraph 7, the auditor should include a reference to the report on the financial statements.
 10. The date of the auditor's opinion on the other information in relation to the financial statements as a whole should not be earlier than the date on which the auditor completed the procedures required in paragraph 7.

Application and Other Explanatory Material

Scope of This Statement on Auditing Standards (Ref: par. 1)

- A1. If the auditor is not engaged to express an opinion on the other information, guidance with respect to required supplementary information is provided in the proposed SAS, *Required Supplementary Information*, and guidance with respect to other information is provided in the proposed SAS, *Other Information in Documents Containing Audited Financial Statements*.
- A2. The other information need not be presented with the financial statements in order for the auditor to express an opinion on whether such other information is fairly stated, in all material respects, in relation to the financial statements as a whole.
- A3. ~~The auditor may be engaged to express an opinion on specified elements, accounts, or items of financial statements for the purpose of a separate presentation in accordance with paragraphs .11-.18 of AU section 623, *Special Reports* (AICPA, *Professional Standards*, vol. 1). Such an opinion would result in the accountant providing a high level of assurance that the other information is not misstated by an amount that would be material to the information itself. The accountant also may be engaged to examine the information or an assertion related to the information in accordance with the attestation standards.~~
- A4. Other information that the auditor may be engaged to opine on whether such information is fairly stated ~~includes the following:~~ **in relation to the financial statements as a whole**
 - Consolidating information and schedules
 - Schedule of general and administrative expenses
 - Fund basis information in financial statements of not-for-profit organizations
 - Schedule of revenues
 - Schedule of completed and uncompleted projects
- A5. ~~For purposes of the SASs, other information does not encompass the following:~~
 - ~~A press release or similar memorandum or cover letter accompanying the document containing audited financial statements and the auditor's report thereon~~

In audits performed in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, the provisions of this standard would apply to the entity's Schedule of Expenditures of Federal Awards. In audits of public housing authorities performed in accordance with requirements of the U.S. Department of Housing and Urban Development (HUD), these provisions would apply to the entity's Financial Data Schedule.

- ~~Information contained in analyst briefings~~
- ~~Information contained on the entity's Web site~~

Procedures to Determine Whether Other Information is Fairly Stated in Relation to the Financial Statements as a Whole (Ref. par. 5–8)

- A6.** When engaged to opine on other information in relation to the financial statements as a whole, the measurement of materiality is the same as that used in the audit of the financial statements (that is, overall audit materiality). Accordingly, the auditor need not apply procedures as extensive as would be necessary to express an opinion on the information taken by itself.
- A7.** With respect to the other information, the auditor is not required to obtain a separate understanding of the entity's internal control; assess fraud risk; or test accounting or other records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, the examination of source documents, or other procedures ordinarily performed in an audit of the financial statements.
- A8.** In comparing and reconciling information to the underlying accounting and other records used in preparing the financial statements or to the financial statements themselves, the auditor may follow the guidance in AU section 350, *Audit Sampling* (AICPA, *Professional Standards*, vol. 1).
- A9.** Other procedures that the auditor may consider necessary to perform include, but are not limited to, the following:
- a. Obtaining an updating representation letter in accordance with paragraph .12 of AU section 333, *Management Representations* (AICPA, *Professional Standards*, vol. 1)
 - b. Performing subsequent events procedures in accordance with paragraph .05 of AU section 560, *Subsequent Events* (AICPA, *Professional Standards*, vol. 1)
 - c. Sending a letter of audit inquiry to the client's lawyer specifically regarding the information contained in the other information in accordance with paragraphs .08–.11 of AU section 337, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments* (AICPA, *Professional Standards*, vol. 1)

Considerations Specific to Audits of Governmental Entities

- A10.** For most state and local governments, the auditor's report on the financial statements includes multiple opinions to address individual reporting units or aggregation of reporting units of the governmental entity. Accordingly, materiality is considered by the auditor for each opinion unit. However, in the context of this SAS, the auditor's expression of opinion on the other information is in relation to the financial statements as a whole. Accordingly, in this situation, materiality is considered at a level that represents the entire governmental entity.

A11.

Exhibit A: Illustrative Reporting Examples

The following is an example of an explanatory paragraph that the auditor may use when engaged to opine on other information in relation to the financial statements as a whole and the auditor is issuing an unqualified opinion on the financial statements:

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *[identify accompanying information]* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements and other additional procedures as prescribed by auditing standards generally accepted in the United States of America. The purpose of the additional procedures is to provide us with a basis for expressing an opinion on whether the *[identify accompanying information]* is **not** misstated by an amount that would be material to the financial statements. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The following is an example of an explanatory paragraph that the auditor may use when engaged to opine on other information in relation to the financial statements as a whole and the auditor is issuing a qualified opinion on the financial statements:

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *[identify accompanying information]* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements and other additional procedures as prescribed by auditing standards generally accepted in the United States of America. The purpose of the additional procedures is to provide us with a basis for expressing an opinion on whether the *[identify accompanying information]* is **not** misstated by an amount that would be material to the financial statements. In our opinion, except for the effect on the accompanying information of *[describe reason for qualification of the auditor's opinion on the financial statements and reference the explanatory paragraph]*, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The following is an example of an explanatory paragraph that the auditor may use when engaged to opine on other information in relation to the financial statements as a whole and the auditor is disclaiming an opinion on the financial statements:

We were engaged for the purpose of forming an opinion on the basic financial statements as a whole. The *[identify accompanying information]* is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

The following are reporting examples that the auditor may use when engaged to opine on other information in relation to the financial statements as a whole and the entity does not present the other information with the financial statements.

The following may be used when the auditor has issued an unqualified opinion on the financial statements:

We have audited the financial statements of XYZ Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated [*date of the auditor's report on the financial statements*]. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The [*identify accompanying information*] is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements and other additional procedures as prescribed by auditing standards generally accepted in the United States of America. The purpose of the additional procedures is to provide us with a basis for expressing an opinion on whether the [*identify accompanying information*] is **not** misstated by an amount that would be material to the financial statements. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The following may be used when the auditor has issued a qualified opinion on the financial statements:

We have audited the financial statements of XYZ Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated [*date of the auditor's report on the financial statements*]. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The [*identify accompanying information*] is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements and other additional procedures as prescribed by auditing standards generally accepted in the United States of America. The purpose of the additional procedures is to provide us with a basis for expressing an opinion on whether the [*identify accompanying information*] is **not** misstated by an amount that would be material to the financial statements. In our opinion, except for the effect on the accompanying information of [*describe reason for qualification of the auditor's opinion on the financial statements and reference the explanatory paragraph*], the information is fairly stated in all material respects in relation to the financial statements as a whole.

The following may be used when the auditor has disclaimed an opinion on the financial statements:

We were engaged to audit the financial statements of XYZ Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated [*date of the auditor's report on the financial statements*]. However, the scope of our audit of the financial statements was not sufficient to enable us to express an opinion because [*describe reasons*]. The [*identify the other information*] is presented for purposes of

additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to auditing procedures, and, accordingly, we express no opinion on it.