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Supplementary information required by the Financial Accounting Standards Board; Statement on auditing standards, 027

American Institute of Certified Public Accountants. Auditing Standards Board

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Issued by the Auditing Standards Board

AICPA

American Institute of
Certified Public Accountants

Supplementary Information Required by the Financial Accounting Standards Board

1. The Financial Accounting Standards Board (FASB) develops standards for financial reporting, including standards for financial statements and for certain other information supplementary to financial statements.¹ This Statement provides the independent auditor with guidance on the nature of procedures to be applied to supplementary information required by the FASB, and it describes the circumstances that would require the auditor to report concerning such information.

Applicability

2. This Statement is applicable in an examination in accordance with generally accepted auditing standards of financial statements

¹In recognition of the FASB's role of setting standards for financial reporting, the AICPA Council has approved the following resolution:

That the Auditing Standards Board shall establish under Statements on Auditing Standards the responsibilities of members with respect to standards for disclosure of financial information outside of financial statements in published financial reports containing financial statements. For this purpose, the Council designates the FASB as the body under rule 204 of the Rules of Conduct to establish standards for the disclosure of such information.

included in a document that should contain supplementary information required by the FASB. However, this Statement is not applicable if the auditor has been engaged to audit such supplementary information.

3. Some entities may voluntarily include in documents containing audited financial statements certain supplementary information that the FASB requires of other entities. When an entity voluntarily includes such information, the provisions of this Statement are applicable unless either the entity indicates that the auditor has not applied the procedures described in this Statement or the auditor expands his report on the audited financial statements to include a disclaimer on the information. When the auditor does not apply the procedures described in this Statement to a voluntary presentation of supplementary information, the provisions of SAS No. 8, *Other Information in Documents Containing Audited Financial Statements*, apply.

Involvement with Information Outside Financial Statements

4. The objective of an examination of financial statements in accordance with generally accepted auditing standards is the expression of an opinion on such statements. The auditor has no responsibility to examine information outside the basic financial statements in accordance with generally accepted auditing standards. However, the auditor does have certain responsibilities with respect to information outside the financial statements. The nature of the auditor's responsibility varies with the nature of both the information and the document containing the statements.

5. The auditor's responsibility for other information not required by the FASB but included in certain annual reports—which are client-prepared documents²—is specified in SAS No. 8, *Other Information in Documents Containing Audited Financial Statements*. The auditor's responsibility for information outside the basic financial statements

²Client-prepared documents include financial reports prepared by the client but reproduced by the auditor on the client's behalf.

in documents that the auditor submits to the client or to others is specified in SAS No. 1, section 610, “Long-Form Reports.” The auditor’s responsibility for supplementary information required by the FASB is discussed in the paragraphs that follow.

Involvement with Supplementary Information Required by the FASB

6. Supplementary information required by the FASB differs from other types of information outside the basic financial statements because the FASB considers the information an essential part of the financial reporting of certain entities and because the FASB establishes guidelines for the measurement and presentation of the information. Accordingly, the auditor should apply certain limited procedures to supplementary information required by the FASB and should report deficiencies in, or the omission of, such information.

Procedures

7. The auditor should consider whether supplementary information is required by the FASB in the circumstances. If supplementary information is required, the auditor should ordinarily apply the following procedures to the information.³

- a.* Inquire of management regarding the methods of preparing the information, including (1) whether it is measured and presented within guidelines prescribed by the FASB, (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) any significant assumptions or interpretations underlying the measurement or presentation.
- 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 examination of the financial statements.

³These procedures are also appropriate when the auditor is involved with voluntary presentations of such information (see paragraph 3).

- c. Consider whether representations on supplementary information required by the FASB should be included in specific written representations obtained from management (see SAS No. 19, *Client Representations*).
- d. Apply additional procedures, if any, that other Statements prescribe for specific types of supplementary information required by the FASB.
- e. Make additional inquiries if application of the foregoing procedures causes the auditor to believe that the information may not be measured or presented within applicable guidelines.

Circumstances Requiring Reporting on Supplementary Information Required by the FASB

8. Since the supplementary information is not audited and is not a required part of the basic financial statements, the auditor need not expand his report on the audited financial statements to refer to the supplementary information or to his limited procedures except in the following circumstances. The auditor's report should be expanded if (a) the supplementary information that the FASB requires to be presented in the circumstances is omitted, (b) the auditor has concluded that the measurement or presentation of the supplementary information departs materially from guidelines prescribed by the FASB, or (c) the auditor is unable to complete the prescribed procedures. Since the supplementary information required by the FASB does not change the standards of financial accounting and reporting used for the preparation of the entity's basic financial statements, the circumstances described above do not affect the auditor's opinion on the fairness of presentation of such financial statements in conformity with generally accepted accounting principles. Furthermore, the auditor need not present the supplementary information if it is omitted by the entity. The following are examples of additional paragraphs an auditor might use in these circumstances.

Omission of Supplementary Information Required by the FASB

The Company has not presented (describe the supplementary infor-

mation required by the FASB in the circumstances) that the Financial Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Material Departures from FASB Guidelines

The (specifically identify the supplementary information) on page xx is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the (specifically identify the supplementary information) is not in conformity with guidelines established by the Financial Accounting Standards Board because (describe the material departure(s) from the FASB guidelines).

Prescribed Procedures Not Completed

The (specifically identify the supplementary information) on page xx is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because (state the reasons).

Even though he is unable to complete the prescribed procedures, if, on the basis of facts known to him, the auditor concludes that the supplementary information has not been measured or presented within FASB guidelines, he should suggest appropriate revision; failing that, he should describe the nature of any material departure(s) in his report.

9. If the entity includes with the supplementary information an indication that the auditor performed any procedures regarding the information without also indicating that the auditor does not express an opinion on the information presented, the auditor's report on the audited financial statements should be expanded to include a disclaimer on the information.

10. Ordinarily, the supplementary information required by the FASB should be distinct from the audited financial statements and separately identifiable from other information outside the financial statements that is not required by the FASB. However, management

may choose not to place the required supplementary information outside of the basic financial statements. In such circumstances, the information should be clearly marked as unaudited. If the information is not clearly marked as unaudited, the auditor's report on the audited financial statements should be expanded to include a disclaimer on the supplementary information.

11. This Statement provides for exception reporting; that is, the auditor should expand his standard report only to call attention to the omission of supplementary information required by the FASB to be presented in the circumstances, material departures from FASB guidelines on the measurement or presentation of such information, or the inability to complete the procedures prescribed by this Statement, but not otherwise report on such information. The Auditing Standards Board has under consideration the issue of whether the auditor should report explicitly on such information, that is, whether the auditor should issue a report, based on the limited procedures prescribed by this Statement, that states he is not aware of any material modifications that should be made to the information for it to conform with guidelines established by the FASB. This issue has not been resolved because of uncertainties concerning (a) the implications that the location of the information (outside or inside the basic financial statements) may have on explicit versus exception reporting, (b) whether Section 11(a) of the Securities Act of 1933 would apply to an auditor's explicit report on supplementary information included in a securities act filing, and (c) the nature of information that may become required supplementary information. The board intends to decide whether explicit reporting is appropriate when sufficient knowledge is obtained to clarify these matters.

Effective Date

12. This Statement is effective for examinations of financial statements for periods ended on or after December 25, 1979.

The Statement entitled "Supplementary Information Required by the Financial Accounting Standards Board" was adopted by the assenting votes of thirteen members of the board. Messrs. Bedford and Berliner dissented.

Mr. Bedford dissents to the issuance of this Statement because it provides for exception reporting rather than explicit reporting on supplementary information required to be disclosed by the FASB. He believes exception reporting does not adequately communicate to users of financial reports the degree of assurance the auditor provides.

Mr. Berliner dissents to the issuance of this Statement because he believes it would unnecessarily impose an open-ended commitment for auditor involvement with all supplementary information prescribed in the future by the FASB. Since no one can reliably predict what information the FASB might decide to require in the future, he believes the profession should not agree in advance to be involved with such supplementary information, which could involve matters outside the auditor's professional expertise, but rather should respond on a case-by-case basis.

Auditing Standards Board (1979-1980)

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Note: *Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the Institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute's Code of Professional Ethics requires adherence to the applicable generally accepted auditing standards promulgated by the Institute. It recognizes Statements on Auditing Standards as interpretations of generally accepted auditing standards and requires that members be prepared to justify departures from such Statements.*