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Adequacy of disclosure in financial statements; Statement on auditing standards, 032

American Institute of Certified Public Accountants. Auditing Standards Board

Statement on Auditing Standards

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AICPA American Institute of Certified Public Accountants

Adequacy of Disclosure in Financial Statements

(Supersedes Statement on Auditing Standards No. 1, section 430, "Adequacy of Informative Disclosure.")

1. The third standard of reporting is:

Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

2. The presentation of financial statements in conformity with generally accepted accounting principles includes adequate disclosure of material matters. These matters relate to the form, arrangement, and content of the financial statements and their appended notes, including, for example, the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth. An independent auditor considers whether a particular matter should be disclosed in light of the circumstances and facts of which he is aware at the time.

3. If management omits from the financial statements, including the accompanying notes, information that is required by generally accepted accounting principles, the auditor should express a qualified or an adverse opinion and should provide the information in his report, if practicable, unless its omission from the auditor's report is

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recognized as appropriate by a specific Statement on Auditing Standards.[1] In this context, *practicable* means that the information is reasonably obtainable from management's accounts and records and that providing the information in his report does not require the auditor to assume the position of a preparer of financial information. For example, the auditor would not be expected to prepare a basic financial statement or segment information and include it in his report when management omits such information.

4. In considering the adequacy of disclosure, and in other aspects of his examination, the auditor uses information received in confidence from the client. Without such confidence, the auditor would find it difficult to obtain information necessary for him to form an opinion on financial statements. Thus, the auditor should not ordinarily make available, without the client's consent, information that is not required to be disclosed in financial statements to comply with generally accepted accounting principles (see AICPA Code of Professional Ethics, Rule 301).

[1]An independent auditor may participate in preparing financial statements, including accompanying notes. The financial statements, including accompanying notes, however, remain the representations of management, and such participation by the auditor does not require him to modify his report (see SAS No. 1, section 110.02).

The Statement entitled *Adequacy of Disclosure in Financial Statements* was adopted unanimously by the fifteen members of the board.

Auditing Standards Board (1979-1980)

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.*