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Statement on Auditing Standards

Issued by the Auditing Standards Board



AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Other Information in Documents Containing Audited Financial Statements

(Supersedes AU section 550, Other Information in Documents Containing Audited Financial Statements [AICPA, Professional Standards, vol. 1], and with Statement on Auditing Standards No. 119, Supplementary Information in Relation to the Financial Statements as a Whole [AICPA, Professional Standards], supersedes AU section 551, Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents [AICPA, Professional Standards, vol. 1])

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Other Information in Documents Containing Audited Financial Statements

Supersedes AU section 550, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1), and with Statement on Auditing Standards No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*), supersedes AU section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1)

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 on the financial statements 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 the auditor 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–A2)

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 may be applied, adapted as necessary in the circumstances, to other documents to which the auditor, at management's request, devotes attention. (Ref: par. A3–A5)



Effective Date

3. This SAS is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

Objective

4. The objective of the auditor is to respond appropriately 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.

Definitions

5. For purposes of generally accepted auditing standards (GAAS), 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, excluding required supplementary information.¹

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.

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.

¹ *Required supplementary information* is defined in paragraph 4 of Statement on Auditing Standards (SAS) No. 120, *Required Supplementary Information* (AICPA, *Professional Standards*).

Requirements

Reading Other Information

6. The auditor should read the other information of which the auditor is aware in order to identify material inconsistencies, if any, with the audited financial statements.

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.² 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. A6)

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.

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 the auditor identifies a material inconsistency prior to the report release date that requires revision of the audited financial statements and management refuses to make the revision, the auditor should modify the auditor's opinion in accordance with AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1).

11. When the auditor identifies a material inconsistency prior to the report release date that requires revision of the other information and management refuses to make the revision, the auditor should communicate this matter to those charged with governance and

² See paragraph .23 of AU section 339, *Audit Documentation* (AICPA, *Professional Standards*, vol. 1), for the definition of *report release date*.

- 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. when withdrawal is possible under applicable law or regulation, withdraw from the engagement.

(Ref: par. A7–A8)

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

12. When revision of the audited financial statements is necessary as a result of a material inconsistency with other information and the auditor's report on the financial statements has already been released, the auditor should apply the relevant requirements 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 after the report release date and management agrees to make the revision, the auditor should carry out the procedures necessary under the circumstances. (Ref: par. A9)

14. When revision of the other information is necessary after the report release date but management refuses to make the revision, the auditor should notify those charged with governance of the auditor's concerns regarding the other information and take any further appropriate action. (Ref: par. A10)

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. A11)

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 by the entity in determining whether such matter is a material misstatement of fact.

17. When the auditor concludes that there is a material misstatement of fact in the other information that management refuses to correct, the auditor should notify those charged with governance of the auditor's concerns regarding the other information and take any further appropriate action. (Ref: par. A12)

Application and Other Explanatory Material

Scope of This SAS (Ref: par. 1–2)

A1. This SAS also addresses other information for which a designated accounting standard setter³ has issued standards or guidance regarding the format to be used and content to be included 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 to be included by a designated accounting standard setter is addressed in SAS No. 120 *Required Supplementary Information* (AICPA, *Professional Standards*).

A2. 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 the auditor could be associated with the information and the user may infer a level of assurance that is not intended. Exhibit A, "Example of an Explanatory Paragraph to Disclaim an Opinion on Other Information," has an example of how an auditor may word such a disclaimer of opinion on other information.

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

³ *Designated accounting standard setter* is defined in paragraph 4 of SAS No. 120.

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- Financial ratios
- Names of officers and directors
- Selected quarterly data

A4. For purposes of GAAS, other information does not encompass, for example, 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 in analyst briefings
- Information contained on the entity's Web site

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. 7)

A6. Obtaining the other information prior to the report release date enables the auditor to resolve possible material inconsistencies and apparent 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 delay the release of the auditor's report until management 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)

A7. 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

(Ref: par. 11)

A8. 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 (Ref: par. 13–14)

A9. When revision of other information is necessary after the report release date and management agrees to make the revision, the auditor's procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued financial statements, the auditor's report thereon, and the other information are informed of the need for revision.

A10. When revision of other information is necessary after the report release date but management refuses to make the revision, appropriate further actions by the auditor may include obtaining advice from the auditor's legal counsel.

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

A11. 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.

A12. 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 released, or withdrawing from the engagement.



A13.

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 basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



A14.

Exhibit B: Comparison of Statement on Auditing Standards No. 118, *Other Information in Documents Containing Audited Financial Statements (AICPA, Professional Standards)*, With International Standard on Auditing 720, *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 Statement on Auditing Standards (SAS) No. 118, *Other Information in Documents Containing Audited Financial Statements (AICPA, Professional Standards)*, with International Standard on Auditing (ISA) 720, *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 SAS clarifies that the auditor's objective is to respond appropriately (in paragraph 4), and the requirement is to read the other information (in paragraph 6) 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. The objective in ISA 720 and the corresponding requirement are not specifically limited to documents of which the auditor is aware. However, the ISA states that *documents containing audited financial statements* refers to annual reports (or similar documents) that are issued to owners (or similar stakeholders) containing audited financial statements and the auditor's report thereon. The ISA further states that it may be applied, adapted as necessary in the circumstances, to other documents containing audited financial statements. The ASB believes that the language added to the SAS limiting the auditor's responsibilities clarifies the intent of the objective and the requirement in the ISA and is appropriate in the U.S. legal environment.

The SAS applies the requirements in paragraphs 7 and 10–14 to the report release date, but ISA 720 applies the corresponding requirements to the date of the auditor’s report. The ASB determined that the report release date, as defined in auditing standards generally accepted in the United States, is more appropriate in the U.S. environment.

The ASB has made various changes to the language throughout the SAS, in comparison with ISA 720. The changes to the SAS include the following:

- In paragraph 1, clarifying that *auditor’s opinion* is the opinion on the financial statements.
- In paragraph 2, adding clarifying language that documents containing audited financial statements refer 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 management’s request, devotes attention.” The latter change is consistent with the requirement in extant AU section 550, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1).
- 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.
 - replacing *contradicts* with *conflicts with* to better define the term *inconsistency*.
- In paragraph 8, including the guidance from paragraph .08 of extant AU section 550.
- In paragraph 11, adding the word explanatory to clarify the report modification.
- In paragraph 16, adding the wording “by the entity in determining whether such matter is a material misstatement of fact” to clarify that the advice is received by the entity.

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

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