

AU Section 9550A

Other Information in Documents Containing Audited Financial Statements: Auditing Interpretations of Section 550A

[1.] Reports by Management on Internal Accounting Control^[1-4]

[.01-.06] [Superseded May 1994 by Interpretation Nos. 2-3 paragraphs .07-.15.]

2. Reports by Management on Internal Control Over Financial Reporting

.07 Question—Communications to various parties specified in section 550A, *Other Information in Documents Containing Audited Financial Statements*, paragraph .02 may include a separate report by management containing an assertion about the effectiveness of the entity's internal control over financial reporting. What is the auditor's responsibility concerning such report?

.08 Interpretation—If the auditor has been engaged to examine and report on management's assertion, the guidance in AT section 501, *An Examination of an Entity's Internal Control Over Financial Reporting That is Integrated With an Audit of Its Financial Statements*, should be followed.

.09 If the auditor has not been engaged to examine and report on management's assertion, the auditor should follow the guidance in section 550A, which states that "the auditor has no obligation to perform any procedures to corroborate other information contained in [such] a document." Under section 550A, the auditor is required to read the report by management and consider whether it is materially inconsistent with information appearing in the financial statements and, as a result, he or she may become aware of a material misstatement of fact.⁵

.10 Although not required, the auditor may consider adding the following paragraph to the standard auditor's report: "We were not engaged to examine management's assertion about the effectiveness of [name of entity's] internal control over financial reporting as of [date] included in the accompanying [title of management's report] and, accordingly, we do not express an opinion thereon."

.11 Because an auditor is required to consider internal control in an audit of the financial statements, he or she would often be familiar with matters covered in a management report on internal control over financial reporting. As a result, the auditor may become aware of information that causes him or her to believe that management's assertion on the effectiveness of internal control over financial reporting contains a material misstatement of fact as described in section 550A.⁶ If the auditor becomes aware of information in the report

^[1-4] [Superseded May 1994 by Interpretation Nos. 2 and 3, paragraphs .07-.15.]

⁵ Unless information on internal control over financial reporting appears in the financial statements, which is not common, a management assertion on the effectiveness of internal control over financial reporting could not be inconsistent with information appearing in financial statements.

⁶ For example, the auditor has communicated to management a material weakness in internal control over financial reporting and management states or implies there are no material weaknesses.

by management that conflicts with his or her knowledge or understanding of such matters, he or she should discuss the information with the client. If, after discussions with the client, the auditor concludes that a material misstatement of fact exists, the auditor should follow the guidance in section 550A paragraph .06.

[Issue Date: May 1994; Revised: January 2001.]

3. Other References by Management to Internal Control Over Financial Reporting, Including References to the Independent Auditor

.12 Question—Communications to various parties specified in section 550A, *Other Information in Documents Containing Audited Financial Statements*, paragraph .02 may include a statement by management about the entity's internal control over financial reporting. Such documents may also refer to the independent auditor in circumstances other than when the auditor has been engaged to examine and report on management's assertion about the effectiveness of internal control over financial reporting. What is the auditor's responsibility in such circumstances?

.13 Interpretation—The auditor should follow the guidance in section 550A, which states that "the auditor has no obligation to perform any procedures to corroborate other information contained in [such] a document." Under section 550A, the auditor is required to read other information in documents containing audited financial statements and consider whether it is materially inconsistent with information appearing in the financial statements and, as a result, he or she may become aware of a material misstatement of fact. If the auditor becomes aware of information in the report by management that conflicts with his or her knowledge or understanding of such matters, he or she should discuss the information with the client. If, after discussions with the client, the auditor concludes that a material misstatement of fact exists, the auditor should follow the guidance in section 550A paragraph .06.

.14 Generally, management may discuss its responsibility for internal control over financial reporting and report on its effectiveness. In reading such information, the auditor should evaluate specific references by management that deal with the auditor's consideration of internal control in planning and performing the audit of the financial statements, particularly if such reference would lead the reader to assume the auditor had performed more work than required under generally accepted auditing standards or would lead the reader to believe that the auditor was giving assurances on internal control. The auditor should also consider whether management's comment or statement uses the auditor's name in such a way as to indicate or imply that the auditor's involvement is greater than is supported by the facts.⁷ If management misstates the auditor's responsibility for consideration of internal control over financial reporting, the auditor should discuss the matter with the client and consider whether any further action is needed in accordance with section 550A paragraph .06.

.15 Paragraph .28 of section 325, *Communicating Internal Control Related Matters Identified in an Audit*, permits an auditor to report to management that

⁷ For instance, management may report that "X Company's external auditors have reviewed the company's internal control in connection with their audit of the financial statements." Because paragraph .06 of AT section 501, *An Examination of an Entity's Internal Control Over Financial Reporting That is Integrated With an Audit of Its Financial Statements*, prohibits an engagement to review and report on the effectiveness of the entity's internal control over financial reporting or a written assertion thereon, a statement by management that the auditors had "reviewed" the company's internal control would be inappropriate.

no material weaknesses⁸ were identified during the audit, but requires such reports to be solely for the information and use of the entity's management, those charged with governance, others within the organization, and specified governmental authorities. If, however, management decides to include or refer to this communication in a general use document, the auditor should communicate to management the restrictions on use of the communication and the potential for such a statement to be misunderstood. For example, the fact that an audit has not disclosed any material weaknesses does not necessarily mean none exist since an audit of the financial statements does not constitute an examination of a management assertion about the effectiveness of internal control over financial reporting. If management refuses to make appropriate changes to the report, the auditor should advise management that he or she has not consented to the use of his or her name and should consider what other actions might be appropriate. In considering what actions, if any, may be appropriate in the circumstances, the auditor may wish to consult legal counsel.

[Issue Date: May 1994; Revised: January 2001; Revised: May 2006.]

4. Other Information in Electronic Sites Containing Audited Financial Statements

.16 Question—An entity may make information available in public computer networks, such as the World Wide Web area of the Internet, an electronic bulletin board, the Securities and Exchange Commission's EDGAR system, or similar electronic venues (hereinafter, "electronic sites"). Information in electronic sites may include annual reports to shareholders, financial statements and other financial information, as well as press releases, product information and promotional material. When audited financial statements and the independent auditor's report thereon are included in an electronic site, what is the auditor's responsibility with respect to other information included in the electronic site?

.17 Interpretation—Electronic sites are a means of distributing information and are not "documents," as that term is used in section 550A, *Other Information in Documents Containing Audited Financial Statements*. Thus, auditors are not required by section 550A to read information contained in electronic sites, or to consider the consistency of other information (as that term is used in section 550A) in electronic sites with the original documents.

.18 Auditors may be asked by their clients to render professional services with respect to information in electronic sites. Such services, which might take different forms, are not contemplated by section 550A. Other auditing or attestation standards may apply, for example, agreed-upon procedures pursuant to AT section 201, *Agreed-Upon Procedures Engagements*, depending on the nature of the service requested.

[Issue Date: March 1997; Revised: January 2001.]

⁸ Section 325 paragraph .29 prohibits a written communication that no significant deficiencies were identified during the audit. If management reports that an auditor made an oral communication that no significant deficiencies were identified during the audit, the auditor should follow the guidance in this paragraph. [Footnote revised, May 2006, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 112.]