

AU Section 551

Supplementary Information in Relation to the Financial Statements as a Whole

(With SAS No. 118, supersedes former section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents.*)

Source: SAS No. 119.

Effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibility when engaged to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. The information covered by this section is presented outside the basic financial statements and is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. This section also may be applied, with the report wording adapted as necessary, when an auditor has been engaged to report on whether required supplementary information¹ is fairly stated, in all material respects, in relation to the financial statements as a whole. (Ref: par. .A1–.A6)

Effective Date

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

Objective

.03 The objective of the auditor, when engaged to report on supplementary information in relation to the financial statements as a whole, is

- a. to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and
- b. to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Definition

.04 For purposes of generally accepted auditing standards, *supplementary information* is defined as information presented outside the basic financial

¹ *Required supplementary information* is defined in paragraph .04 of section 558, *Required Supplementary Information*.

statements, excluding required supplementary information that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. Such information may be presented in a document containing the audited financial statements or separate from the financial statements. (Ref: par. .A7–.A8)

Requirements

Procedures to Determine Whether Supplementary Information Is Fairly Stated, in All Material Respects, in Relation to the Financial Statements as a Whole (Ref: par. .A9–.A15)

.05 In order to opine on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, the auditor should determine that all of the following conditions are met:

- a. The supplementary information was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements.
- b. The supplementary 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 the financial statements. (Paragraph .11 addresses reporting while not opining on supplementary information when the report on the financial statements contains an adverse opinion or a disclaimer of opinion.)
- e. The supplementary information will accompany the entity's audited financial statements, or such audited financial statements will be made readily available by the entity. (Ref: par. .A9)

.06 The auditor should obtain the agreement of management that it acknowledges and understands its responsibility

- a. for the preparation of the supplementary information in accordance with the applicable criteria.
- b. to provide the auditor with the written representations described in paragraph .07(g).
- c. to include the auditor's report on the supplementary information in any document that contains the supplementary information and that indicates that the auditor has reported on such supplementary information.
- d. to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon. (Ref: par. .A9)

.07 In addition to the procedures performed during the audit of the financial statements, in order to opine on whether supplementary information is

fairly stated, in all material respects, in relation to the financial statements as a whole, the auditor should perform the following procedures using the same materiality level used in the audit of the financial statements:

- a. Inquire of management about the purpose of the supplementary information and the criteria used by management to prepare the supplementary information, such as an applicable financial reporting framework, criteria established by a regulator, a contractual agreement, or other requirements
- b. Determine whether the form and content of the supplementary information complies with the applicable criteria
- c. Obtain an understanding about the methods of preparing the supplementary information and determine whether the methods of preparing the supplementary information have changed from those used in the prior period and, if the methods have changed, the reasons for such changes
- d. Compare and reconcile the supplementary information to the underlying accounting and other records used in preparing the financial statements or to the financial statements themselves
- e. Inquire of management about any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information
- f. Evaluate the appropriateness and completeness of the supplementary information, considering the results of the procedures performed and other knowledge obtained during the audit of the financial statements (Ref: par. .A13)
- g. Obtain written representations from management
 - i. that it acknowledges its responsibility for the presentation of the supplementary information in accordance with the applicable criteria;
 - ii. that it believes the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria;
 - iii. 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;
 - iv. about any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information; and
 - v. that when the supplementary information is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon. (Ref: par. .A9)

.08 The auditor has no responsibility for the consideration of subsequent events with respect to the supplementary information. However, if information comes to the auditor's attention prior to the release of the auditor's report on the financial statements regarding subsequent events that affect the financial statements, the auditor should apply the relevant requirements in section 560, *Subsequent Events*. If information comes to the auditor's attention subsequent

to the release of the auditor's report on the financial statements regarding facts that may have existed at that date, which might have affected the report had the auditor been aware of such facts, the auditor should apply the relevant requirements in section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

Reporting

.09 When the entity presents the supplementary information with the financial statements, the auditor should report on the supplementary information in either (1) an explanatory paragraph following the opinion paragraph in the auditor's report on the financial statements or (2) in a separate report on the supplementary information. The explanatory paragraph or separate report 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 supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements
- c. A statement that the supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements
- d. A statement that the supplementary 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 or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America
- e. If the auditor issues an unqualified opinion on the financial statements and the auditor has concluded that the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, a statement that, in the auditor's opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole
- f. If the auditor issues a qualified opinion on the financial statements and the qualification has an effect on the supplementary information, a statement that, in the auditor's opinion, except for the effects on the supplementary 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

.10 When the audited financial statements are not presented with the supplementary information, the auditor should report on the supplementary information in a separate report. When reporting separately on the supplementary information, the report should include, in addition to the elements in paragraph .09, a reference to the report on the financial statements, the date of that report, the nature of the opinion expressed on the financial statements, and any report modifications. (Ref: par. .A16)

.11 When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion and the auditor has been engaged to report on whether supplementary information is fairly stated, in all material respects, in relation to such financial statements as a whole, the auditor is precluded from expressing an opinion on the supplementary information. When permitted by law or regulation, the auditor may withdraw from the engagement to report on the supplementary information. If the auditor does not withdraw, the auditor's report on the supplementary information should state that because of the significance of the matter disclosed in the auditor's report, it is inappropriate to, and the auditor does not, express an opinion on the supplementary information.

.12 The date of the auditor's report on the supplementary 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 .07.

.13 If the auditor concludes, on the basis of the procedures performed, that the supplementary information is materially misstated in relation to the financial statements as a whole, the auditor should discuss the matter with management and propose appropriate revision of the supplementary information. If management does not revise the supplementary information, the auditor should either

- a.* modify the auditor's opinion on the supplementary information and describe the misstatement in the auditor's report or
- b.* if a separate report is being issued on the supplementary information, withhold the auditor's report on the supplementary information.

Application and Other Explanatory Material

Scope of This Section (Ref: par. .01)

.A1 The auditor's responsibility for information that a designated accounting standard setter² requires to accompany an entity's basic financial statements is addressed in section 558, *Required Supplementary Information*.

.A2 The auditor's responsibility for 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, is addressed in section 550, *Other Information in Documents Containing Audited Financial Statements*.

.A3 The supplementary information need not be presented with the audited financial statements in order for the auditor to express an opinion on whether such supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. However, in accordance with paragraph .10, if the supplementary information is not presented with the audited financial statements, the auditor's report on the supplementary information is required to make reference to the auditor's report on the financial statements.

.A4 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 section 623, *Special Reports*. In such an engagement, the auditor's procedures are designed to provide the auditor with reasonable assurance that the supplementary information is not misstated by an amount that would be material to the information itself. An engagement to examine the supplementary information or an assertion related to the supplementary information also may be performed in accordance with AT section 101, *Attest Engagements*.

.A5 Although an auditor has no obligation to apply auditing procedures to supplementary information presented outside the basic financial statements, the auditor may choose to modify or redirect certain of the procedures to be applied in the audit of the basic financial statements so that the auditor may express an opinion on the supplementary information in relation to the financial statements as a whole.

.A6 Management may include nonaccounting information and accounting information that is not directly related to the basic financial statements in a document containing the basic financial statements. Ordinarily, such information would not have been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, the auditor would be unable to opine on the information in relation to the financial statements as a whole. In some circumstances, however, such information may have been obtained or derived from accounting records that have been tested by the auditor (for example, number of units produced related to royalties under a license agreement or number of employees related to a given payroll period). Accordingly, the auditor may be in a position to express an opinion on such information in relation to the financial statements as a whole.

² Designated accounting standard setter is defined in paragraph .04 of section 558.

Definitions (Ref: par. .04)

.A7 Supplementary information includes additional details or explanations of items in or related to the basic financial statements, consolidating information, historical summaries of items extracted from the basic financial statements, statistical data, and other material, some of which may be from sources outside the accounting system or outside the entity.

.A8 Supplementary information may be prepared in accordance with an applicable financial reporting framework, by regulatory or contractual requirements, in accordance with management's criteria, or in accordance with other requirements.

Procedures to Determine Whether Supplementary Information Is Fairly Stated, in All Material Respects, in Relation to the Financial Statements as a Whole (Ref: par. .05–.08)

The Meaning of Readily Available (Ref: par. .05(e), .06(d), and .07(f))

.A9 Audited financial statements are deemed to be readily available if a third party user can obtain the audited financial statements without any further action by the entity. For example, financial statements on an entity's website may be considered readily available, but being available upon request is not considered readily available.

Procedures Performed on Supplementary Information (Ref: par. .07)

.A10 When engaged to report on supplementary information in relation to the financial statements as a whole, the auditor need not apply procedures as extensive as would be necessary to express an opinion on the information on a stand-alone basis.

.A11 With respect to the supplementary information, the auditor is not required to obtain a separate understanding of the entity's internal control or to assess fraud risk.

.A12 The auditor may consider materiality in determining which information to compare and reconcile to the underlying accounting and other records used in preparing the financial statements or to the financial statements themselves.

.A13 In evaluating the appropriateness and completeness of the supplementary information as required by paragraph 07(f), the auditor may consider testing accounting or other records through observation or examination of source documents or other procedures ordinarily performed in an audit of the financial statements.

.A14 The auditor may consider whether it is appropriate to address the supplementary information in procedures that the auditor performs in auditing the financial statements, including, but not limited to, the following:

- a. Obtaining an updating representation letter, in accordance with section 333, *Management Representations*
- b. Performing subsequent events procedures, in accordance with section 560

- c. Sending a letter of audit inquiry to the client's lawyer specifically regarding the information contained in the supplementary information, in accordance with section 337, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*

Considerations Specific to Audits of Governmental Entities

.A15 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 section, the auditor's opinion on the supplementary 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.

Reporting (Ref: par. .09–.13)

.A16 The auditor may consider restricting the use of a separate report on supplementary information to the appropriate specified parties, in accordance with section 532, *Restricting the Use of an Auditor's Report*, to avoid potential misinterpretation or misunderstanding of the supplementary information that is not presented with the financial statements.

.A17

Exhibit: Illustrative Reporting Examples

The following is an example of an explanatory paragraph that the auditor may use when engaged to report on supplementary information in relation to the financial statements as a whole and the auditor is issuing an unqualified opinion on the financial statements and the auditor has concluded that the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole:

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The [*identify accompanying supplementary information*] is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and 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 or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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 report on supplementary information in relation to the financial statements as a whole and the auditor is issuing a qualified opinion on the financial statements and a qualified opinion on the supplementary information:

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The [*identify accompanying supplementary information*] is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and 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 or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the supplementary 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 report on supplementary 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 supplementary information*] is presented for the purposes of additional analysis

and is not a required part of the financial statements. Because of the significance of the matter described above [the auditor may describe the basis for the disclaimer of opinion], it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

The following is an example of an explanatory paragraph that the auditor may use when engaged to report on supplementary information in relation to the financial statements as a whole and the auditor is issuing an adverse 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 supplementary information*] is presented for the purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described above [the auditor may describe the basis for the adverse opinion], it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

The following are reporting examples that the auditor may use when reporting separately on supplementary information in relation to the financial statements as a whole.

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

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*] which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The [*identify supplementary information*] is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and 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 or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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 and a qualified opinion on the supplementary information:

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, the nature of the opinion expressed on the financial statements, and a description of the report modifications*]. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The [*identify supplementary information*] is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management

and 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 or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the accompanying information of the qualified opinion on the financial statements as described above, 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]* and accordingly we did not express an opinion on such financial statements. The *[identify the supplementary information]* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Because of the significance of the matter discussed above, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

The following may be used when the auditor has issued an adverse 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]* which stated that the financial statements are not presented fairly in accordance with *[identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America [GAAP])]* because *[describe reasons]*. The *[identify the supplementary information]* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Because of the significance of the matter discussed above, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.
