

AU Section 551A

Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents

(Supersedes section 610, "Long-Form Reports.")¹

Source: SAS No. 29; SAS No. 52; SAS No. 98.

Effective for auditors' reports dated on or after December 31, 1980, unless otherwise indicated.

.01 This section provides guidance on the form and content of reporting when an auditor submits to his client or to others a document that contains information in addition to the client's basic financial statements and the auditor's report thereon.

.02 The auditor's standard report covers the basic financial statements: balance sheet, statement of income, statement of retained earnings or changes in stockholders' equity, and statement of cash flows. The following presentations are considered part of the basic financial statements: descriptions of accounting policies, notes to financial statements, and schedules and explanatory material that are identified as being part of the basic financial statements. For purposes of this section, basic financial statements also include an individual basic financial statement, such as a balance sheet or statement of income and financial statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles.

.03 The information covered by this section is presented outside the basic financial statements and is not considered necessary for presentation of financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Such 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.

Reporting Responsibility

.04 When an auditor submits a document containing audited financial statements to his client or to others, he has a responsibility to report on all the information included in the document. On the other hand, when the auditor's report is included in a client-prepared document² and the auditor is not engaged to report on information accompanying the basic financial statements, his responsibility with respect to such information is described in (a) section 550A, *Other Information in Documents Containing Audited Financial*

¹ This section also supersedes the March 1979 auditing interpretation, "Reports on Consolidated Financial Statements That Include Supplementary Consolidating Information".

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

Statements, and (b) other sections covering particular types of information or circumstances, such as section 558A, *Required Supplementary Information*.

.05 An auditor's report on information accompanying the basic financial statements in an auditor-submitted document has the same objective as an auditor's report on the basic financial statements: to describe clearly the character of the auditor's work and the degree of responsibility the auditor is taking. Although the auditor may participate in the preparation of the accompanying information as well as the basic financial statements, both the statements and the accompanying information are representations of management.

.06 The following guidelines apply to an auditor's report on information accompanying the basic financial statements in an auditor-submitted document:

- a. The report should state that the audit has been performed for the purpose of forming an opinion on the basic financial statements taken as a whole.
- b. The report should identify the accompanying information. (Identification may be by descriptive title or page number of the document.)
- c. The report should state that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements.³
- d. The report should include either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion, depending on whether the information has been subjected to the auditing procedures applied in the audit of the basic financial statements. The auditor may express an opinion on a portion of the accompanying information and disclaim an opinion on the remainder.
- e. The report on the accompanying information may be added to the auditor's report on the basic financial statements or may appear separately in the auditor-submitted document.

.07 The purpose of an audit of basic financial statements in accordance with generally accepted auditing standards is to form an opinion on those statements taken as a whole. Nevertheless, an audit of basic financial statements often encompasses information accompanying those statements in an auditor-submitted document. Also, although an auditor has no obligation to apply auditing procedures to information presented outside the basic financial statements, he may choose to modify or redirect certain of the procedures to be applied in the audit of the basic financial statements so that he may express an opinion on the accompanying information in the manner described in paragraph .06.

.08 When reporting in this manner, the measurement of materiality is the same as that used in forming an opinion on the basic financial statements taken as a whole. Accordingly, the auditor need not apply procedures as extensive as would be necessary to express an opinion on the information taken by itself. Guidance applicable to the expression of an opinion on specified elements, accounts, or items of financial statements for the purpose of a separate presentation is provided in section 623.11–.18, *Special Reports*.

³ The auditor may refer to any regulatory agency requirements applicable to the information presented.

.09 If the auditor concludes, on the basis of facts known to him, that any accompanying information is materially misstated in relation to the basic financial statements taken as a whole, he should discuss the matter with the client and propose appropriate revision of the accompanying information.⁴ If the client will not agree to revision of the accompanying information, the auditor should either modify his report on the accompanying information and describe the misstatement or refuse to include the information in the document.

.10 The auditor should consider the effect of any modifications in his standard report when reporting on accompanying information. When the auditor expresses a qualified opinion on the basic financial statements, he should make clear the effects upon any accompanying information as well (see paragraph .14). When the auditor expresses an adverse opinion, or disclaims an opinion, on the basic financial statements, he should not express the opinion described in paragraph .06 on any accompanying information.⁵ An expression of such an opinion in these circumstances would be inappropriate because, like a piecemeal opinion, it may tend to overshadow or contradict the disclaimer of opinion or adverse opinion on the basic financial statements. (See section 508.64 and section 623.14.)

.11 A client may request that nonaccounting information and certain accounting information not directly related to the basic financial statements be included in an auditor-submitted document. 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 disclaim an opinion on it. 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 the manner described in paragraph .06.

Reporting Examples

.12 An example of reporting on information accompanying the basic financial statements in an auditor-submitted document follows:

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The (identify accompanying information) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.^{6]}

.13 When the auditor disclaims an opinion on all or part of the accompanying information in a document that he submits to his client or to others, such information should either be marked as unaudited or should include a reference to the auditor's disclaimer of opinion. The wording of the disclaimer will vary according to the circumstances. Two examples follow.

⁴ See paragraph .10 for guidance when there is a modification of the auditor's standard report on the basic financial statements.

⁵ The provisions of this paragraph do not change the guidance, concerning companies whose accounting practices are prescribed by governmental regulatory authorities or commissions, in the last sentence of section 544 paragraph .02, *Regulated Companies*, which reads: "An adverse opinion may be accompanied by an opinion on supplementary data which are presented in conformity with generally accepted accounting principles."

^{6]} [Footnote deleted by the issuance of Statement on Auditing Standards No. 98, September 2002.]

Disclaimer on All of the Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The (identify the accompanying 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 express no opinion on it.

Disclaimer on Part of the Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages XX—YY is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

.14 An example follows of reporting on accompanying information to which a qualification in the auditor's report on the basic financial statements applies.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of investments (page 7), property (page 8), and other assets (page 9) as of December 31, 19XX, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in such schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements; and, in our opinion, except for the effects on the schedule of investments of not accounting for the investments in certain companies by the equity method as explained in the second preceding paragraph [second paragraph of our report on page 1], such information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary Information Required by GAAP

.15 When supplementary information required by GAAP is presented outside the basic financial statements in an auditor-submitted document, the auditor should (a) express an opinion on the information if the auditor has been engaged to examine the information, (b) report on the information using the guidance in paragraphs .12 and .14, provided such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, or (c) disclaim an opinion on the information.⁷ The following is an example of a disclaimer an auditor might use in these circumstances:

The [identify the supplementary information] on page XX is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America.⁸ We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the

⁷ The guidance in subsection (b) of this paragraph applies to GASB required supplementary information, such as that required by GASB Statement No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers*. The auditor should refer to section 552, *Reporting on Condensed Financial Statements and Selected Financial Data*, paragraphs .09–.10, for an example of a report on GASB required supplementary information.

⁸ The auditor may identify the body requiring the information, such as the Financial Accounting Standards Board or the Governmental Accounting Standards Board. [Footnote added, effective September 2002, by Statement on Auditing Standards No. 98.]

supplementary information. However, we did not audit the information and express no opinion on it.

[As amended, effective April 1988, by Statement on Auditing Standards No. 52. As amended, effective September 2002, by Statement on Auditing Standards No. 98.]

.16 The auditor's report should be expanded in accordance with section 558A, *Required Supplementary Information*, paragraph .08, if (a) supplementary information that GAAP 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 GAAP, (c) the auditor is unable to complete the procedures prescribed by section 558A, or (d) the auditor is unable to remove substantial doubts about whether the supplementary information conforms to prescribed guidelines. [Paragraph added, effective September 2002, by Statement on Auditing Standards No. 98.]

Consolidating Information

.17 Consolidated financial statements may include consolidating information or consolidating schedules presenting separate financial statements of one or more components of the consolidated group.⁹ In some cases, the auditor is engaged to express an opinion on the financial statements of the components as well as on the consolidated financial statements. In other cases, the auditor is engaged to express an opinion only on the consolidated financial statements but consolidating information or schedules accompany the basic consolidated financial statements. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 98, September 2002.]

.18 When the auditor is engaged to express an opinion only on the consolidated financial statements and consolidating information is also included, the auditor should be satisfied that the consolidating information is suitably identified. For example, when the consolidated financial statements include columns of information about the components of the consolidated group, the balance sheets might be titled, "Consolidated Balance Sheet—December 31, 19X1, with Consolidating Information," and the columns including the consolidating information might be marked, "Consolidating Information." When the consolidating information is presented in separate schedules, the schedules presenting balance sheet information of the components might be titled, for example, "Consolidating Schedule, Balance Sheet Information, December 31, 19X1." [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 98, September 2002.]

.19 When the consolidated financial statements include consolidating information that has not been separately audited, the auditor's report on the consolidating information might read

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. The consolidating information has

⁹ This section [paragraphs .17–.20] is also applicable to combined and combining financial statements. [Footnote renumbered by the issuance of Statement on Auditing Standards No. 98, September 2002. Footnote revised, September 2002, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 98.]

been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

[Paragraph renumbered by the issuance of Statement on Auditing Standards No. 98, September 2002.]

.20 When the auditor is engaged to express an opinion on both the consolidated financial statements and the separate financial statements of the components presented in consolidating financial statements, the auditor's reporting responsibilities with respect to the separate financial statements are the same as his responsibilities with respect to the consolidated financial statements. In such cases, the consolidating financial statements and accompanying notes should include all the disclosures that would be necessary for presentation in conformity with generally accepted accounting principles of separate financial statements of each component. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 98, September 2002.]

Additional Commentary Concerning the Audit

.21 The auditor may be requested to describe the procedures applied to specific items in the financial statements. Additional comments of this nature should not contradict or detract from the description of the scope of his audit in the standard report. Also, they should be set forth separately rather than interspersed with the information accompanying the basic financial statements to maintain a clear distinction between management's representations and the auditor's representations. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 98, September 2002.]

Co-Existing Financial Statements

.22 More than one type of document containing the audited financial statements may exist. For example, the auditor may submit to his client or others a document containing the basic financial statements, other information, and his report thereon, and the client may issue a separate document containing only the basic financial statements and the auditor's report. The basic financial statements should include all the information considered necessary for presentation in conformity with generally accepted accounting principles in all co-existing documents. The auditor should be satisfied that information accompanying the basic financial statements in an auditor-submitted document would not support a contention that the basic financial statements in the other document were not presented in conformity with generally accepted accounting principles because of inadequate disclosure of material information known to the auditor. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 98, September 2002.]

Effective Date

.23 This section will be effective for auditors' reports dated on or after December 31, 1980. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 98, September 2002.]
