

AU Section 558A***Required Supplementary Information*****(Supersedes section 553.)*****Source: SAS No. 52; SAS No. 98.****See section 9558A for interpretations of this section.****Issue date, unless otherwise indicated: April, 1988.**

.01 The Financial Accounting Standards Board (FASB), Governmental Accounting Standards Board (GASB), and the Federal Accounting Standards Advisory Board (FASAB) develop standards for financial reporting, including standards for financial statements and for certain other information supplementary to financial statements.¹ This section provides the independent auditor with

* This section also withdraws the following Statements on Auditing Standards:

- Statement on Auditing Standards No. 28, *Supplementary Information on the Effects of Changing Prices* [Formerly section 554].
- Statement on Auditing Standards No. 40, *Supplementary Mineral Reserve Information* [Formerly section 556].
- Statement on Auditing Standards No. 45, *Supplementary Oil and Gas Reserve Information* [Formerly section 557]. SAS No. 45 was reissued as an auditing interpretation, see section 9558A.01-.06.

¹ The FASB, GASB, and FASAB's roles in setting standards for financial reporting have been recognized by the AICPA Council. The FASB's authority to establish standards for disclosure of financial information outside of the basic financial statements is described in the following resolution:

That as of (September 19, 1987), the FASB, in respect of statements of financial accounting standards finally adopted by such board in accordance with its rules of procedure and the bylaws of the Financial Accounting Foundation, be, and hereby is, designated by this Council as the body to establish accounting principles pursuant to rule 203 and standards on disclosure of financial information for such entities outside financial statements in published financial reports containing financial statements under rule 202 of the *Rules of the Code of Professional Conduct* of the American Institute of Certified Public Accountants provided, however, any accounting research bulletins, or opinions of the accounting principles board issued or approved for exposure by the accounting principles board prior to April 1, 1973, and finally adopted by such board on or before June 30, 1973, shall constitute statements of accounting principles promulgated by a body designated by Council as contemplated in rule 203 of the *Rules of the Code of Professional Conduct* unless and until such time as they are expressly superseded by action of the FASB.

The GASB's authority to establish standards for financial reporting is described in the following resolution:

That as of (September 19, 1987), the GASB, with respect to statements of governmental accounting standards adopted and issued in July 1984 and subsequently in accordance with its rules of procedure and the bylaws of the FASB, be, and hereby is, designated by the Council of the American Institute of Certified Public Accountants as the body to establish financial accounting principles for state and local governmental entities pursuant to rule 203, and standards on disclosure of financial information for such entities outside financial statements in published financial reports containing financial statements under rule 202.

The FASAB's authority to establish standards for financial reporting for federal government entities is described in the following resolution:

That as of (October 19, 1999), the FASAB is designated under rule 203 of the AICPA's *Code of Professional Conduct* as the body to establish accounting principles for federal government entities, and be it further resolved to recognize the Federal Accounting Standards Advisory Board with respect to statements of federal accounting standards adopted and issued in March of 1993 and subsequently in accordance with the FASAB's rules of procedure, and be it further resolved

(continued)

guidance on the nature of procedures to be applied to supplementary information required by the FASB, GASB, or FASAB and describes the circumstances that would require the auditor to report such information. [Revised, April 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 91.]

Applicability

.02 This section is applicable in an audit in accordance with generally accepted auditing standards of financial statements included in a document that should contain supplementary information required by generally accepted accounting principles (GAAP). However, this section is not applicable if the auditor has been engaged to audit such supplementary information.² [Revised, April 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 91. As amended, effective September 2002, by Statement on Auditing Standards No. 98.]

.03 Some entities may voluntarily include, in documents containing audited financial statements, certain supplementary information that is required of other entities. When an entity voluntarily includes such information as a supplement to the financial statements or in an unaudited note to the financial statements, the provisions of this section are applicable unless either the entity indicates that the auditor has not applied the procedures described in this section or the auditor includes in an explanatory paragraph in his report on the audited financial statements a disclaimer on the information.³ The following is an example of a disclaimer an auditor might use in these circumstances:

The [*identify the supplementary information*] on page XX (or in Note XX) is not a required part of the basic financial statements, and we did not audit or apply limited procedures to such information and do not express any assurances on such information.

When the auditor does not apply the procedures described in this section to a voluntary presentation of required supplementary information required for other entities, the provisions of section 550A, apply.

(footnote continued)

that no later than five years from the date the FASAB is granted rule 203 authority, the AICPA's Board of Directors will review the mission and operations of the FASAB and will evaluate whether the FASAB continues to meet council-approved criteria used to assess standards setting bodies designated under rule 203. Upon such review and evaluation, the AICPA's board shall recommend to council whether council shall continue to designate the FASAB under rule 203.

[Footnote revised, April 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 91.]

² This section is not applicable to entities that voluntarily present supplementary information not required by GAAP. For example, entities that voluntarily present supplementary information on the effects of inflation and changes in specific prices, formerly required by FASB Statement No. 33, *Financial Reporting and Changing Prices*, are guided by section 550A, *Other Information in Documents Containing Audited Financial Statements*. [Footnote revised, April 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 91. As amended, effective September 2002, by Statement on Auditing Standards No. 98.]

³ When supplementary information is presented in an auditor-submitted document outside the basic financial statements, the guidance in section 551A, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, as amended by SAS No. 52, *Omnibus Statement on Auditing Standards—1987*, should be followed.

Involvement With Information Outside Financial Statements

.04 The objective of an audit of financial statements in accordance with generally accepted auditing standards is the expression of an opinion on such statements. The auditor has no responsibility to audit information outside the basic financial statements in accordance with generally accepted auditing standards. However, the auditor does have certain responsibilities with respect to information outside the financial statements. The nature of the auditor's responsibility varies with the nature of both the information and the document containing the financial statements.

.05 The auditor's responsibility for other information not required by the FASB, GASB, or FASAB but included in certain annual reports—which are client-prepared documents⁴—is specified in section 550A. The auditor's responsibility for information outside the basic financial statements in documents that the auditor submits to the client or to others is specified in section 551A. The auditor's responsibility for supplementary information required by the FASB, GASB or FASAB (called *required supplementary information*) is discussed in the paragraphs that follow. [Revised, April 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 91.]

Involvement With Required Supplementary Information

.06 Required supplementary information differs from other types of information outside the basic financial statements because the FASB, GASB or FASAB considers the information an essential part of the financial reporting of certain entities and because authoritative guidelines for the measurement and presentation of the information have been established. Accordingly, the auditor should apply certain limited procedures to required supplementary information and should report deficiencies in, or the omission of, such information. [Revised, April 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 91.]

Procedures

.07 The auditor should consider whether supplementary information is required by the FASB or GASB in the circumstances. If supplementary information is required, the auditor ordinarily should apply the following procedures to the information.⁵

- a. Inquire of management about the methods of preparing the information, including (1) whether it is measured and presented within prescribed guidelines, (2) whether methods of measurement or presentation have been changed from those used in the prior period and the reasons for any such changes, and (3) any significant assumptions or interpretations underlying the measurement or presentation.
- b. Compare the information for consistency with (1) management's responses to the foregoing inquiries, (2) audited financial

⁴ Client-prepared documents include financial reports prepared by the client but merely reproduced by the auditor on the client's behalf.

⁵ These procedures are also appropriate when the auditor is involved with voluntary presentations of such information required for other entities (see paragraph .03).

- statements,⁶ and (3) other knowledge obtained during the examination of the financial statements.
- c. Consider whether representations on required supplementary information should be included in specific written representations obtained from management (section 333, *Management Representations*).
 - d. Apply additional procedures, if any, that other statements, interpretations, guides, or statements of position prescribe for specific types of required supplementary information.
 - e. Make additional inquiries if application of the foregoing procedures causes the auditor to believe that the information may not be measured or presented within applicable guidelines.

Reporting on Required Supplementary Information

.08 Since the supplementary information is not audited and is not a required part of the basic financial statements, the auditor need not add an explanatory paragraph to the report on the audited financial statements to refer to the supplementary information or to his or her limited procedures, except in any of the following circumstances:⁷ (a) the 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 prescribed guidelines; (c) the auditor is unable to complete the prescribed procedures; (d) the auditor is unable to remove substantial doubts about whether the supplementary information conforms to prescribed guidelines. Since the required supplementary information does not change the standards of financial accounting and reporting used for the preparation of the entity's basic financial statements, the circumstances described above do not affect the auditor's opinion on the fairness of presentation of such financial statements in conformity with generally accepted accounting principles. Furthermore, the auditor need not present the supplementary information if it is omitted by the entity. The following are examples of additional explanatory paragraphs an auditor might use in these circumstances.

Omission of Required Supplementary Information

The (Company or Governmental Unit) has not presented [*describe the supplementary information required by GAAP*[†]] that accounting principles generally

⁶ GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, requires presentation of certain 6-year historical trend information relating to pension activities as supplementary information outside the basic financial statements. Such information is generally derived from financial statements. If such required supplementary information has been derived from audited financial statements and is presented outside the basic financial statements in an auditor-submitted document, the auditor may report on this information as indicated in section 552, *Reporting on Condensed Financial Statements and Selected Financial Data*, paragraph .10. [Footnote revised, April 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 91.]

⁷ When required supplementary information is presented outside the basic financial statements in an auditor-submitted document, the auditor should (a) express an opinion on the information if engaged to examine the information; (b) report on such information using the guidance in paragraphs .12 and .14 of AU section 551A, 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 (see paragraphs .15 and .16 of AU section 551A). [As amended, effective September 2002, by Statement on Auditing Standards No. 98.]

[†] 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.]

accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Material Departures From Guidelines

The [specifically identify the supplementary information] on page XX is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the [specifically identify the supplementary information] is not in conformity with accounting principles generally accepted in the United States because [describe the material departure(s) from the GAAP †].

Prescribed Procedures Not Completed

The [specifically identify the supplementary information] on page XX is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because [state the reasons].

Unresolved Doubts About Adherence to Guidelines

The [specifically identify the supplementary information] on page XX is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures prescribed by professional standards that raised doubts that we were unable to resolve regarding whether material modifications should be made to the information for it to conform with guidelines established by accounting principles generally accepted in the United States. [The auditor should consider including in the report the reason(s) he or she was unable to resolve his or her substantial doubts.]

Even though the auditor is unable to complete the prescribed procedures, if, on the basis of facts known to him or her, the auditor concludes that the supplementary information has not been measured or presented within prescribed guidelines, he or she should suggest appropriate revision; failing that, he or she should describe the nature of any material departure(s) in the report. [Revised, April 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 91. As amended, effective September 2002, by Statement on Auditing Standards No. 98.]

.09 In conjunction with the audit of the financial statements, the auditor may subject the supplementary information to certain auditing procedures. If the procedures are sufficient to enable the auditor to express an opinion on whether the information is fairly stated in all material respects in relation to the financial statements taken as a whole, the auditor may expand the audit report in accordance with paragraph .07 of AU section 550A. [Paragraph added, effective September 2002, by Statement on Auditing Standards No. 98.]

.10 If the entity includes with the supplementary information an indication that the auditor performed any procedures regarding the information without also indicating that the auditor does not express an opinion on the information presented, the auditor's report on the audited financial statements should be expanded to include a disclaimer on the information or, if appropriate, an opinion on whether the information is fairly stated in all material respects in

† See footnote † in paragraph 558A.08.

relation to the financial statements taken as a whole. [Paragraph renumbered and amended, effective September 2002, by Statement on Auditing Standards No. 98.]

.11 Ordinarily, the required supplementary information should be distinct from the audited financial statements and distinguished from other information outside the financial statements that is not required by GAAP. However, management may choose not to place the required supplementary information outside the basic financial statements. In such circumstances, unless it is audited as part of the basic financial statements, the information should be clearly marked as unaudited. If the information is not clearly marked as unaudited, the auditor's report on the audited financial statements should be expanded to include a disclaimer on the supplementary information. [Revised, April 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 91. Paragraph renumbered and amended, effective September 2002, by Statement on Auditing Standards No. 98.]
