

## AU-C Section 730

### *Required Supplementary Information*

(Supersedes SAS No. 52 section 558.)

Source: SAS No. 120; SAS No. 122.

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

#### NOTE

To address practice issues, Statement on Auditing Standards (SAS) No. 120, *Required Supplementary Information*, was issued in February 2010 as a SAS resulting from the Clarification and Convergence Project of the Auditing Standards Board, and became effective for audits of financial statements for periods beginning on or after December 15, 2010.

SAS No. 120 was previously codified as AU section 558 until December 2013, when all AU sections were deleted from AICPA *Professional Standards*, as described in the AU-C Foreword. SAS No. 122, *Statement on Auditing Standards: Clarification and Recodification*, redesignated AU section 558 as section 730 but did not supersede SAS No. 120.

This section contains conforming changes necessary in specific paragraphs and footnotes due to the issuance of SAS No. 122.

## Introduction

### Scope of This Section

.01 This section addresses the auditor's responsibility with respect to information that a designated accounting standards setter requires to accompany an entity's basic financial statements (hereinafter referred to as *required supplementary information*). In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion on the basic financial statements does not cover required supplementary information. (Ref: par. .A1) [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

### 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 objectives of the auditor when a designated accounting standards setter requires information to accompany an entity's basic financial statements are to perform specified procedures in order to

- a. describe, in the auditor's report, whether required supplementary information is presented and
- b. communicate therein when some or all of the required supplementary information has not been presented in accordance with guidelines established by a designated accounting standards setter or when the auditor has identified material modifications that should be made to the required supplementary information for it to be in accordance with guidelines established by the designated accounting standards setter.

[Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

## Definitions

.04 For purposes of this section, the following terms have the meanings attributed as follows:

**Applicable financial reporting framework.** The financial reporting framework adopted by management and, when appropriate, those charged with governance in the preparation and fair presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

**Basic financial statements.** Financial statements presented in accordance with an applicable financial reporting framework as established by a designated accounting standards setter, excluding required supplementary information.

**Designated accounting standards setter.** A body designated by the Council of the AICPA to promulgate GAAP pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct.

**Prescribed guidelines.** The authoritative guidelines established by the designated accounting standards setter for the methods of measurement and presentation of the required supplementary information.

**Required supplementary information.** Information that a designated accounting standards setter requires to accompany an entity's basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standards setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of the information have been established.

[Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122. Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

## Requirements

### Procedures

**.05** The auditor should apply the following procedures to required supplementary information:

- a. Inquire of management about the methods of preparing the information, including (i) whether it has been measured and presented in accordance with prescribed guidelines, (ii) whether methods of measurement or presentation have been changed from those used in the prior period and the reasons for any such changes, and (iii) whether there were any significant assumptions or interpretations underlying the measurement or presentation of the information
- b. Compare the information for consistency with (i) management's responses to the foregoing inquiries, (ii) the basic financial statements, and (iii) other knowledge obtained during the audit of the basic financial statements
- c. Obtain written representations from management (i) that it acknowledges its responsibility for the required supplementary information; (ii) about whether the required supplementary information is measured and presented in accordance with prescribed guidelines; (iii) about whether the methods of measurement or presentation have changed from those used in the prior period and, if so, the reasons for such changes; and (iv) about any significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information<sup>1</sup>

**.06** If the auditor is unable to complete the procedures in paragraph .05, the auditor should consider whether management contributed to the auditor's inability to complete the procedures. If the auditor concludes that the inability to complete the procedures was due to significant difficulties encountered in dealing with management, the auditor should inform those charged with governance.<sup>2</sup>

### Reporting

**.07** The auditor should include an other-matter paragraph in the auditor's report on the financial statements to refer to the required supplementary information in accordance with section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.<sup>3</sup> The other-matter paragraph should include language to explain the following circumstances, as applicable:

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<sup>1</sup> See section 580, *Written Representations*, for additional requirements and guidance with respect to obtaining written representations from management as part of an audit of financial statements performed in accordance with generally accepted auditing standards. [Footnote revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

<sup>2</sup> See paragraph .12 of section 260, *The Auditor's Communication With Those Charged With Governance*, for additional guidance when the auditor encounters significant difficulties in dealing with management during the audit. [Footnote revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

<sup>3</sup> Paragraph .08 of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*. [Footnote added, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

- a. The required supplementary information is included, and the auditor has applied the procedures in paragraph .05 of this section.
- b. The required supplementary information is omitted.
- c. Some required supplementary information is missing and some is presented in accordance with the prescribed guidelines.
- d. The auditor has identified material departures from the prescribed guidelines.
- e. The auditor is unable to complete the procedures in paragraph .05 of this section.
- f. The auditor has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.

[Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

**.08** If the entity has presented all or some of the required supplementary information, the other-matter paragraph referred to in paragraph .07 should include the following elements: (Ref: par. .A2)

- a. A statement that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require that the [*identify the required supplementary information*] be presented to supplement the basic financial statements
- b. A statement that such information, although not a part of the basic financial statements, is required by [*identify designated accounting standards setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
- c. If the auditor is able to complete the procedures in paragraph .05,
  - i. a statement that the auditor has applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to the auditor's inquiries, the basic financial statements, and other knowledge the auditor obtained during the audit of the basic financial statements
  - ii. a statement that the auditor does not express an opinion or provide any assurance on the information because the limited procedures do not provide the auditor with sufficient evidence to express an opinion or provide any assurance
- d. If the auditor is unable to complete the procedures in paragraph .05,
  - i. a statement that the auditor was unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States because [*state the reasons*]
  - ii. a statement that the auditor does not express an opinion or provide any assurance on the information

- e. If some of the required supplementary information is omitted,
  - i. a statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements
  - ii. a statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
  - iii. a statement that the auditor's opinion on the basic financial statements is not affected by the missing information
- f. If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, a statement that although the auditor's opinion on the basic financial statements is not affected, material departures from prescribed guidelines exist [*describe the material departures from the applicable financial reporting framework*]
- g. If the auditor has unresolved doubts about whether the required supplementary information is measured or presented in accordance with prescribed guidelines, a statement that although the auditor's opinion on the basic financial statements is not affected, the results of the limited procedures have raised doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with guidelines established by [*identify designated accounting standards setter*]

[Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

**.09** If all of the required supplementary information is omitted, the other-matter paragraph should include the following elements:

- a. A statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements
- b. A statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
- c. A statement that the auditor's opinion on the basic financial statements is not affected by the missing information

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## Application and Other Explanatory Material

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

**.A1** 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 but that is not required by a designated accounting standards setter is addressed in section 720, *Other Information in Documents Containing Audited Financial Statements*. [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

### Reporting (Ref: par. .07–.09)

**.A2** Because the required supplementary information accompanies the basic financial statements, the auditor's report on the financial statements includes a discussion of the responsibility taken by the auditor on that information. However, because the required supplementary information is not part of the basic financial statements, the auditor's opinion on the fairness of presentation of such financial statements in accordance with the applicable financial reporting framework is not affected by the presentation by the entity of the required supplementary information or the failure to present some or all of such required supplementary information. Furthermore, if the required supplementary information is omitted by the entity, the auditor does not have a responsibility to present that information.

.A3

## **Exhibit—Examples of Other-Matter Paragraphs When Reporting on Required Supplementary Information**

Illustration 1—The Required Supplementary Information Is Included, the Auditor Has Applied the Specified Procedures, and No Material Departures From Prescribed Guidelines Have Been Identified

Illustration 2—All Required Supplementary Information Omitted

Illustration 3—Some Required Supplementary Information Is Omitted and Some Is Presented in Accordance With the Prescribed Guidelines

Illustration 4—Material Departures From Prescribed Guidelines Identified

Illustration 5—Specified Procedures Not Completed

Illustration 6—Unresolved Doubts About Whether the Required Supplementary Information Is in Accordance With Prescribed Guidelines

### **Illustration 1 — The Required Supplementary Information Is Included, the Auditor Has Applied the Specified Procedures, and No Material Departures From Prescribed Guidelines Have Been Identified**

*[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* require that the *[identify the required supplementary information]* on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by *[identify designated accounting standards setter]* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



**Illustration 2—All Required Supplementary Information Omitted**

Management has omitted [*describe the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards setter*] who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Illustration 3—Some Required Supplementary Information Is Omitted and Some Is Presented in Accordance With the Prescribed Guidelines**

*[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* require that *[identify the included supplementary information]* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by *[identify designated accounting standards setter]* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Management has omitted *[describe the missing required supplementary information]* that *[identify the applicable financial reporting framework]* require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by *[identify designated accounting standards setter]* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## Illustration 4—Material Departures From Prescribed Guidelines Identified

*[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* require that the *[identify the supplementary information]* on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by *[identify designated accounting standards setter]* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, the following material departures from the prescribed guidelines exist *[identify the required supplementary information and describe the material departures from the prescribed guidelines]*. We do not express an opinion or provide any assurance on the information.

**Illustration 5—Specified Procedures Not Completed**

*[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* require that the *[identify the supplementary information]* on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by *[identify designated accounting standards setter]* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because *[state the reasons]*. We do not express an opinion or provide any assurance on the information.

## Illustration 6—Unresolved Doubts About Whether the Required Supplementary Information Is in Accordance With Prescribed Guidelines

*[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* require that the *[identify the supplementary information]* on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by *[identify designated accounting standards setter]* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Although our opinion on the basic financial statements is not affected, the results of the limited procedures have raised doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with guidelines established by *[identify designated accounting standards setter]*. *[The auditor may consider including in the report the reason(s) he or she was unable to resolve his or her doubts.]*

[Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

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