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PROPOSED AUDITING STANDARD

AUDITING SUPPLEMENTAL INFORMATION  
ACCOMPANYING AUDITED FINANCIAL  
STATEMENTS

AND RELATED AMENDMENTS TO PCAOB  
STANDARDS

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) PCAOB Release No. 2011-005  
) July 12, 2011  
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) PCAOB Rulemaking  
) Docket Matter No. 036  
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Summary: The Public Company Accounting Oversight Board ("PCAOB" or the "Board") is proposing an auditing standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*, which would supersede the Board's auditing standard, AU sec. 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, and related amendments to certain PCAOB auditing standards. The proposed standard and related amendments would be applicable to all registered firms conducting audits in accordance with PCAOB standards.

Public

Comment: Interested persons may submit written comments to the Board. Such comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to [comments@pcaobus.org](mailto:comments@pcaobus.org) or through the Board's Web site at [www.pcaobus.org](http://www.pcaobus.org). All comments should refer to PCAOB Rulemaking Docket Matter No. 036 in the subject or reference line and should be received by the Board no later than 5:00 PM (EDT) on September 12, 2011.

Board

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### I. Introduction

The Public Company Accounting Oversight Board ("PCAOB" or "Board") is proposing a new auditing standard, *Auditing Supplemental Information Accompanying Audited Financial Statements* ("the proposed standard"). The proposed standard would benefit investors and other users of financial statements by updating and enhancing the required audit procedures when the auditor of the financial statements is engaged to audit and report on whether supplemental information accompanying the financial statements is fairly stated, in all material respects, in relation to the financial statements as a whole.<sup>1/</sup> The proposed standard would supersede AU sec. 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, and would amend certain PCAOB auditing standards.

### II. Reasons for the Proposed Auditing Standard

A number of factors and developments have led the Board to reexamine its requirements regarding supplemental information. Primarily, Section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act<sup>2/</sup> (the "Dodd-Frank Act") granted the Board oversight of the audits of brokers and dealers registered with the U.S. Securities and Exchange Commission ("SEC" or "Commission"). On June 15, 2011, the Commission proposed<sup>3/</sup> to amend its rules to require, among other things, that audits of brokers<sup>4/</sup> and dealers<sup>5/</sup> financial statements be performed in accordance with the

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<sup>1/</sup> The proposed standard would not apply if an auditor other than the auditor of the financial statements is engaged to audit and report on supplemental information. In those situations, the auditor of the supplemental information should look to the requirements of AU sec. 623, *Special Reports*.

<sup>2/</sup> Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010).

<sup>3/</sup> See 17 CFR § 240.17a-5, *Reports to be made by certain brokers and dealers* and Section I. of SEC Release No. 34-64676.

<sup>4/</sup> According to PCAOB Rule 1001(b)(iii), the term "broker" means a broker (as defined in Section 3(a)(4) of the Exchange Act), that is required to file a balance sheet, income statement, or other financial statement under Section 17(e)(1)(A) of that Act, where such balance sheet, income statement, or financial statement is required to be certified by a registered public accounting firm.

<sup>5/</sup> According to PCAOB Rule 1001(d)(iii) The term "dealer" means a dealer (as defined in Section 3(a)(5) of the Exchange Act), that is required to file a balance

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standards of the PCAOB. Under both existing and proposed SEC rules, brokers and dealers are required to submit to the Commission financial reports containing certain supporting schedules, including supporting schedules regarding the computation of net capital and the computation for determination of reserve requirements and information related to the broker's or dealer's possession or control of its clients' assets.<sup>6/</sup> These schedules provide information that is important to the Commission and other designated examining authorities in their oversight of brokers and dealers.

Furthermore, the Board has issued for comment proposed new standards for attestation engagements related to brokers' and dealers' compliance with the SEC's proposed amendments to Exchange Act Rule 17a-5. The requirements in these standards are closely related to the existing requirements regarding supporting schedules for brokers and dealers, which are carried forward by the SEC's proposed rule. Among other things, the proposed attestation standards emphasize the importance of coordinating the work in the compliance attestation engagement with the audit of the financial statements and supplemental information.

AU sec. 551 currently focuses on the auditor's reporting responsibilities regarding supplemental information accompanying audited financial statements and does not specify the audit procedures to be applied to test the supplemental information. Because of the importance of supplemental information in audits of financial statements of brokers, dealers, and others, it is important for the Board's standards to describe both the procedural and reporting requirements for such supplemental information.

This standard also would apply to other audited supplemental information that is included in SEC filings, whether required by regulatory bodies other than the SEC or submitted voluntarily by issuers. Such information warrants the same level of audit attention as the supporting schedules of brokers and dealers, and auditors' reports should adequately inform investors about the auditor's responsibilities for that supplemental information.

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sheet, income statement, or other financial statement under Section 17(e)(1)(A) of that Act, where such balance sheet, income statement, or financial statement is required to be certified by a registered public accounting firm.

<sup>6/</sup> See 17 CFR § 240.17a-5.

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**III. Overview of the Proposed Auditing Standard**

The proposed standard would apply when the auditor of the company's financial statements is engaged to audit and report on supplemental information that accompanies the audited financial statements. Such supplemental information includes the supporting schedules prepared pursuant to SEC Rule 17a-5,<sup>7/</sup> supplemental information required to be prepared pursuant to the rules and regulations of a regulatory body other than the SEC and included in an SEC filing, and information included in SEC filings that is ancillary to the audited financial statements, derived from the company's accounting books and records, and not otherwise required to be prepared pursuant to the rules and regulation of the SEC or another relevant regulatory body.<sup>8/</sup>

The auditor's standard report includes an opinion on the financial statements.<sup>9/</sup> Historically, when auditors reported on supplemental information, they often expressed their opinions on the supplemental information "in relation to" the financial statements as a whole.<sup>10/</sup> Audit procedures regarding that supplemental information generally have been performed in conjunction with the audit of the financial statements. Indeed, the auditor's report on supplemental information currently required under AU sec. 551 is rooted in the concept that the supplemental information is presented in relation to the financial statements as a whole. The proposed standard retains the existing "in relation to" language in the auditor's report.<sup>11/</sup>

The proposed standard establishes procedural and reporting responsibilities for the auditor regarding supplemental information accompanying financial statements. The proposed standard enhances existing PCAOB standards by:

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<sup>7/</sup> See 17 CFR § 240.17a-5.

<sup>8/</sup> Like AU sec. 551, the proposed standard does not apply to unaudited supplementary information, such as the information required by Item 302 of SEC Regulation S-K, 17 CFR §229.302.

<sup>9/</sup> AU sec. 508, *Reports on Audited Financial Statements*, establishes requirements regarding the auditor's standard report.

<sup>10/</sup> See AU sec. 551.12.

<sup>11/</sup> Appendix 3 discusses the auditor's "in relation to" opinion further.

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- Requiring the auditor to perform certain audit procedures to test and evaluate the supplemental information, and
- Establishing requirements that promote enhanced coordination between the work performed on the supplemental information with work performed on the financial statement audit and other engagements, such as a compliance attestation engagement for brokers and dealers.

The proposed standard would not apply to schedules prepared pursuant to SEC Regulation S-X, 17 CFR § 210 because those schedules are deemed to be part of the financial statements.<sup>12/</sup>

#### **IV. Effective Date of the Proposed Auditing Standard and Related Amendments**

The Board expects that the proposed standard would be effective for fiscal years ending on or after September 15, 2012, subject to approval by the SEC.

#### **V. Opportunity for Public Comment**

The Board will seek comment on the proposed standard and amendments for a 60-day period. Written comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington DC 20006-2803. Comments also may be submitted by email to [comments@pcaobus.org](mailto:comments@pcaobus.org) or through the Board's Web site at [www.pcaobus.org](http://www.pcaobus.org). All comments should refer to the PCAOB Rulemaking Docket Matter No. 036 on the subject or reference line and should be received by the Board no later than 5:00 PM (EDT) on September 12, 2011.

The Board will consider carefully all comments received. Following the close of the comment period, the Board will determine whether to adopt final rules, with or without amendments. Any final rules adopted will be submitted to the SEC for approval. Pursuant to Section 107 of the Sarbanes-Oxley Act of 2002, proposed rules of the Board do not take effect unless approved by the Commission. Standards are rules of the Board under the Act.

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<sup>12/</sup> See Section 1-01(b) of Regulation S-X, 17 CFR § 210.1-01(b), which states in part, "the term financial statements ... shall be deemed to include all notes to the statements and all related schedules." See also Appendix 3 of this release.

**RELEASE**

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On the 12<sup>th</sup> day of July, in the year 2011, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ J. Gordon Seymour

J. Gordon Seymour  
Secretary

July 12, 2011

*APPENDIX 1 – Proposed Auditing Standard – Auditing Supplemental Information Accompanying Audited Financial Statements*

*APPENDIX 2 – Proposed Amendments to PCAOB Standards*

*APPENDIX 3 – Additional Discussion of the Proposed Auditing Standard and Questions for Public Comment*

*APPENDIX 4 – Comparison of the Objective and Requirements of the Proposed Auditing Standard to the Analogous Standard of the Auditing Standards Board of the American Institute of Certified Public Accountants*

## **Appendix 1**

### **Proposed Auditing Standard**

#### ***Auditing Supplemental Information Accompanying Audited Financial Statements***

##### ***Introduction***

1. This standard sets forth the auditor's responsibilities when the auditor of the company's financial statements is engaged to audit and report on **supplemental information**<sup>1/</sup> that accompanies audited financial statements.

##### ***Objective***

2. The objective of the auditor of the financial statements, when engaged to audit and report on supplemental information that accompanies audited financial statements, is to obtain sufficient appropriate audit evidence to express an opinion on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

##### **Performing Audit Procedures on Supplemental Information Accompanying Audited Financial Statements**

3. The auditor should perform audit procedures to obtain appropriate audit evidence that is sufficient to support the auditor's opinion on the supplemental information in relation to the financial statements as a whole. The nature, timing and extent of audit procedures necessary to obtain sufficient appropriate audit evidence and to report on the supplemental information depend on, among other things:

- a. The risk of material misstatement of the supplemental information;
- b. The materiality of the information presented;

Note: When planning and performing the audit of supplemental information, the auditor should use the same

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<sup>1/</sup> Terms defined in Appendix A, Definitions, are set in **boldface type** the first time they appear.

consideration of materiality as that used in planning and performing the audit of the financial statements.<sup>2/</sup>

- c. The evidence obtained from the audit of the financial statements and, if applicable, other engagements by the auditor or affiliates of the firm, for the period presented; and

Note: The procedures performed regarding the supplemental information should be planned and performed in conjunction with the audit of the financial statements. For audits of brokers and dealers, the procedures should be coordinated with the attestation engagements related to compliance or exemption reports required by the U.S. Securities and Exchange Commission ("SEC"). The auditor should take into account relevant evidence from the audit of the financial statements and, if applicable, the attestation engagements, in planning and performing audit procedures related to the supplemental information and in evaluating the results of the audit procedures to form the opinion on the supplemental information.

- d. Whether a qualified opinion, an adverse opinion, or a disclaimer of opinion was issued on the financial statements.
4. In the audit of supplemental information, the auditor should:
- a. Obtain an understanding of the purpose of the supplemental information and the criteria management used to prepare the supplemental information, including relevant regulatory requirements,
  - b. Obtain an understanding of the methods of preparing the supplemental information and determine whether those methods have changed from the methods used in the prior period and, if the methods have changed, determine the reasons for and evaluate the appropriateness of such changes,

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<sup>2/</sup> Auditing Standard No. 11, *Consideration of Materiality in Planning and Performing an Audit*, establishes requirements regarding the auditor's consideration of materiality in planning and performing an audit.



- c. Inquire of management about any significant assumptions or interpretations underlying the measurement or presentation of the supplemental information,
- d. Determine that the supplemental information reconciles to the underlying accounting and other records or to the financial statements, as applicable,
- e. Perform procedures to test the completeness and accuracy of supplemental information to the extent that it was not tested as part of the audit of financial statements, and
- f. Evaluate whether the form and content of the supplemental information comply with the relevant regulatory requirements or other applicable criteria, if any.

### **Management Representations**

- 5. The auditor should obtain written representations from management, including:
  - a. A statement that management acknowledges its responsibility for the presentation of the supplemental information;
  - b. A statement that management believes the supplemental information, including its form and content, is fairly stated, in all material respects;
  - c. A statement 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 and why those changes are appropriate;
  - d. If the form and content of the supplemental information is prescribed by regulatory requirements or other applicable criteria, a statement that the supplemental information complies, in all material respects, with the regulatory requirements or applicable criteria, and identification of those requirements or applicable criteria; and
  - e. Any significant assumptions or interpretations underlying the measurement or presentation of the supplemental information, and a statement that management believes that such assumptions or interpretations are appropriate.

## Evaluation of Audit Results

6. The auditor should evaluate whether the supplemental information, including its form and content, is fairly stated, in all material respects, in relation to the financial statements as a whole, including whether the supplemental information is presented in conformity, in all material respects, with the relevant regulatory requirements or other applicable criteria.

7. The auditor should accumulate misstatements regarding the supplemental information identified during performance of audit procedures on the supplemental information and in the audit of the financial statements.<sup>3/</sup> The auditor should communicate accumulated misstatements regarding the supplemental information to management on a timely basis to provide management with an opportunity to correct them.<sup>4/</sup>

8. The auditor should evaluate whether uncorrected misstatements related to the supplemental information are material, either individually or in combination with other misstatements,<sup>5/</sup> taking into account relevant quantitative and qualitative factors.<sup>6/</sup>

Note: The auditor should consider the effect of uncorrected misstatements related to the supplemental information in evaluating the results of the financial statement audit.

9. The auditor should consider the effect of any modifications to the audit report on the financial statements when evaluating whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Reporting

10. The auditor's report on supplemental information accompanying audited financial statements should include the following:

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<sup>3/</sup> Paragraph 10 of Auditing Standard No. 14, *Evaluating Audit Results*, discusses the auditor's responsibility regarding the accumulation of misstatements in an audit of financial statements.

<sup>4/</sup> See paragraph 15 of Auditing Standard No. 14.

<sup>5/</sup> See paragraph 17 of Auditing Standard No. 14.

<sup>6/</sup> See paragraph 30 of Auditing Standard No. 14.

- a. Identification of the supplemental information. (Identification may be by descriptive title of the supplemental information or reference to the page number and document where the supplemental information is located.)
- b. A statement that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements.
- c. A statement that the audit procedures performed included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information.
- d. A statement that the audit procedures also included evaluating the form and content of the supplemental information.
- e. An opinion on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole, or a disclaimer of opinion. If the form and content is prescribed by regulatory requirements or other applicable criteria, the opinion should also address whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria.
- f. A statement, if applicable, that the supplemental information is presented on a basis that differs from the financial statements and is not prescribed by regulatory requirements. When such a statement is made, the report should describe the basis for the supplemental information presentation.

11. Unless prescribed by regulatory requirements, the auditor may either include the auditor's report on the supplemental information in the auditor's report on the financial statements or issue a separate report on the supplemental information. If the auditor issues a separate report on the supplemental information, that report should refer to the auditor's report on the financial statements.

12. The date of the auditor's report on the supplemental information in relation to the financial statements as a whole should not be earlier than:

- a. The date of the auditor's report on the financial statements from which the supplemental information was derived, and

- b. The date on which the auditor obtained sufficient appropriate audit evidence to support the auditor's opinion on the supplemental information in relation to the financial statements as a whole.

13. The following is an example of an auditor's opinion on supplemental information when included in the auditor's opinion on the financial statements:

The [identify supplemental information] has been subjected to audit procedures performed in conjunction with the audit of the financial statements. Our audit procedures included determining whether the [supplemental information] reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the [supplemental information]. Our procedures also included evaluating the form and content of the [supplemental information]. In our opinion, the [identify supplemental information] is fairly stated, in all material respects, in relation to the financial statements as a whole, and accordingly, its form and content comply, in all material respects, with the relevant regulatory requirements.

14. If the auditor determines that the supplemental information is materially misstated in relation to the financial statements as a whole, the auditor should describe the material misstatement in the auditor's report on the supplemental information and express a qualified or adverse opinion on the supplemental information.

15. If the auditor is unable to obtain sufficient appropriate evidence to support an opinion on the supplemental information, the auditor should disclaim an opinion on the supplemental information. In those situations, the auditor's report on the supplemental information should describe the reason for the disclaimer and state that the auditor is unable to and does not express an opinion on the supplemental information.

Note: If the supplemental information consists of two or more schedules, and the auditor is able to obtain sufficient appropriate evidence to support an opinion on some but not all schedules, the auditor may express an opinion on only those schedules for which he or she obtained sufficient appropriate evidence but should disclaim an opinion on the other schedules.

**APPENDIX A – Definitions**

A1. For purposes of this standard, the term listed below is defined as follows:

A2. Supplemental Information – Refers to the following information when it accompanies audited financial statements:

- a. Supporting schedules that brokers and dealers are required to file pursuant to SEC Rule 17a-5, 17 CFR § 240.17a-5;
- b. Supplemental information required to be presented pursuant to the rules and regulations of a regulatory body other than the SEC and included in an SEC filing; and
- c. Information included in SEC filings that is ancillary to the audited financial statements, derived from the company's accounting books and records, and not otherwise required to be presented pursuant to the rules and regulations of the SEC or another relevant regulatory body.

## **Appendix 2**

### ***Proposed Amendments to PCAOB Standards***

#### **AU sec. 9342, "Auditing Accounting Estimates: Auditing Interpretations of Section 342"**

AU sec. 9342, "Auditing Accounting Estimates: Auditing Interpretations of Section 342," as amended, is amended as follows:

- a. The second sentence of paragraph .07 is replaced with:

When the audited disclosures do not constitute a complete balance sheet presentation and are included in a supplemental schedule or exhibit, the auditor should look to the requirements in Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*.

- b. The second sentence of paragraph .08 is replaced with:

If the unaudited voluntary disclosures are located on the face of the financial statements or in the footnotes, the voluntary disclosures should be labeled "unaudited." If the unaudited information is presented in a supplemental schedule, the auditor should disclaim an opinion on the unaudited information.

- c. In the second flowchart in paragraph .10, "Auditing Guidance for Fair Value Information" the box text that states:

The voluntary disclosures should be labeled "unaudited" and the auditor should disclaim an opinion on the unaudited information as discussed in section 551.13.

is replaced with:

The voluntary disclosures should be labeled "unaudited" and the auditor should disclaim an opinion on the unaudited information.

- d. In the second flowchart in paragraph .10, the box text that states:

The auditor should add an additional paragraph to the report as discussed in section 551.12.

Is replaced with:

The auditor should add an additional paragraph to the report.

**AU sec. 380, "Communication With Audit Committees"**

SAS No. 61, "Communication with Audit Committees" (AU sec. 380, "Communication With Audit Committees"), as amended, is amended as follows:

In footnote 7 to paragraph .12, the reference, "section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*", is replaced with:

Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*

**AU sec. 530, "Dating of the Independent Auditor's Report"**

SAS No. 1, "Codification of Auditing Standards and Procedures," section 530, "Dating of the Independent Auditor's Report" (AU sec. 530, "Dating of the Independent Auditor's Report"), as amended, is amended as follows:

Within paragraph .06, the clause, "(See Section 551.)", is deleted.

**AU sec. 550, "Other Information in Documents Containing Audited Financial Statements"**

AU sec. 550, "*Other Information in Documents Containing Audited Financial Statements*," as amended, is amended as follows:

a. Within paragraph .03

- At the end of the fourth sentence of paragraph .03, the clause, "(see sections 551\* and 623\*\*)", is replaced with:

(see Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements* and AU sec. 623,\*\*).

- Footnote \* to paragraph .03 is deleted.

b. Within paragraph .07

- The third sentence is replaced with:

The auditor's responsibility regarding supplemental information accompanying audited financial statements is discussed in Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*.

- The last sentence, "[Paragraph added, effective September 2002 by Statement on Auditing Standards No. 98.]", which appears in brackets, is deleted.

**AU sec. 551, "Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents"**

AU sec. 551, "Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents," as amended, is superseded.

**AU sec. 552, "Reporting on Condensed Financial Statements and Selected Financial Data"**

AU sec. 552, "Reporting on Condensed Financial Statements and Selected Financial Data," as amended, is amended as follows:

The second sentence in paragraph .01 is replaced with:

The auditor's responsibility regarding supplemental information accompanying audited financial statements is discussed in Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*.

**AU sec. 558, "Required Supplementary Information"**

AU sec. 558, "*Required Supplementary Information*," as amended, is amended as follows:

- a. Footnote 3 to paragraph .03 is replaced with:

The auditor's responsibility regarding supplemental information accompanying audited financial statements is discussed in Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*.

- b. The second sentence of paragraph .05 is replaced with:



The auditor's responsibility regarding supplemental information accompanying audited financial statements is discussed in Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*.

- c. Footnote 7 to paragraph .08 is replaced with:

When the auditor is engaged to audit and report on supplemental information, the auditor should look to the requirements in Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*.

## **Appendix 3**

### ***Additional Discussion of the Proposed Auditing Standard and Questions for Public Comment***

This appendix discusses the proposed auditing standard in Appendix 1 and the related amendments to PCAOB standards in Appendix 2. In particular, this appendix describes how the proposed standard and related amendments would change the requirements in existing PCAOB auditing standards, specifically, AU sec. 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*. This appendix discusses the basis for the Board's preliminary conclusions regarding certain requirements and contains specific questions for which the Board would like to obtain feedback.

#### **I. Proposed Standard, Auditing Supplemental Information Accompanying Audited Financial Statements**

##### **A. Applicability of the Proposed Standard and Definition of Supplemental Information**

This proposed standard would apply when the auditor of the company's financial statements is engaged to audit and report on supplemental information that accompanies audited financial statements.<sup>1/</sup> The following are the types of supplemental information that the proposed standard would cover:

- a. Supporting schedules that brokers and dealers are required to file pursuant to SEC Rule 17a-5, 17 CFR § 240.17a-5;
- b. Supplemental information required to be prepared pursuant to the rules and regulations of a regulatory body other than the SEC and included in an SEC filing; and

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<sup>1/</sup> The proposed standard would not apply if the auditor who is engaged to audit and report on supplemental information did not audit the financial statements. In those situations, the auditor would not have the knowledge of the company's financial statements or the evidence regarding the accounts and disclosures in the financial statements necessary to express an opinion regarding whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole. Accordingly, the auditor should audit the supplemental information on a standalone basis in accordance with the requirements in AU sec. 623, *Special Reports*.

- c. Information included in SEC filings that is ancillary to the audited financial statements, derived from the company's accounting books and records, and not otherwise required to be prepared pursuant to the rules and regulations of the SEC or another relevant regulatory body.

The standard would not apply to unaudited supplemental information, such as that required by the accounting standards or Item 302 of SEC Regulation S-K, 17 CFR §229.302. Auditors should continue to look to the requirements of AU sec. 558, *Required Supplementary Information*, regarding unaudited information about oil and gas producing activities that is required by 17 CFR §229.302(b) and Financial Accounting Standards Board's Accounting Standards Codification Extractive Industries – Oil and Gas Topic, section 932-50-2. Auditors should continue to look to the requirements of AU sec. 722, *Interim Financial Information*, regarding selected quarterly financial data that is required by 17 CFR §229.302(a). Similarly, auditors should continue to look to AU sec. 550, *Other Information in Documents Containing Audited Financial Statements*, regarding Management's Discussion and Analysis of Financial Condition and Results of Operations, unless the auditor is engaged to examine and report on that information.<sup>2/</sup>

1. *Exclusion of Schedules Required by SEC Regulation S-X*

The proposed standard would not apply to schedules prepared pursuant to SEC Regulation S-X<sup>3/</sup> because those schedules are part of the financial statements pursuant to Section 1-01(b) of Regulation S-X,<sup>4/</sup> which states, "the term financial statements as used...shall be deemed to include all notes to the statements and all related schedules." Accordingly, the schedules required by Regulation S-X should be referred to in the introductory paragraph and in the opinion of the standard auditor's report set forth in AU sec. 508, *Reports on Audited Financial Statements*.<sup>5/</sup>

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<sup>2/</sup> If engaged to examine and report on Management's Discussion and Analysis ("MD&A"), the auditor should look to the requirements of AT sec. 701, *Management's Discussion and Analysis*.

<sup>3/</sup> See, for example, Rules 5-04, 6-05, 6-10, 6A-05, 7-05, and Article 12 of SEC Regulation S-X, 17 CFR § 210.5-04, 6-05, 6-10, 6A-05, 7-05, and 12.

<sup>4/</sup> 17 CFR § 210.1-01(b) states, "the term financial statements as used...shall be deemed to include all notes to the statements and all related schedules."

<sup>5/</sup> This is consistent with current practice for audits of investment companies that file with the SEC.

Questions:

1. Does the definition of supplemental information in the proposed standard sufficiently describe the type of information covered by this standard?
2. Are there other types of supplemental information that are currently reported on but are not addressed in the definition of supplemental information in the proposed standard?
3. Are there any particular challenges to applying the requirements of this standard to certain types of supplemental information required by regulatory bodies and included in SEC filings?
4. Should additional guidance be provided regarding reporting on audits of financial statements that are deemed to include schedules required by SEC Regulation S-X? For example, is guidance needed regarding reporting when the schedules required by SEC Regulation S-X are included in SEC filings in which the audited financial statements are incorporated by reference? Are there other practical implications that the Board should consider?

**B. "In Relation to" the Financial Statements as a Whole**

Like AU sec. 551, the auditor's report on supplemental information in the proposed standard includes an expression of an opinion on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole. The concept of expressing an opinion on the supplemental information "in relation to" the financial statements as a whole includes using the same materiality considerations from the financial statement audit in the audit of the supplemental information.

The Board considered whether to change the standard to adopt a reporting model, whereby the auditor would audit and report directly on the supplemental information rather than report on that information in relation to the financial statements as a whole. Such a standalone approach generally would require the audit of the supplemental information to be conducted with a lower materiality level, which could potentially result in greater audit effort as compared to the "in relation to" approach in the proposed standard.

The proposed standard retains the "in relation to" concept used in AU sec. 551 because the supplemental information covered by this standard accompanies the

financial statements, is intended to provide additional information and is derived from the company's accounting and other records.

The Board seeks comment on whether the proposed "in relation to" approach would provide the necessary benefits to the users of the financial statements or whether a standalone approach would be more appropriate and would provide benefits that outweigh the increased audit effort.

Questions:

5. Is the proposed "in relation to" audit opinion an appropriate degree of responsibility for supplemental information to serve the public interest and protect investors and customers of brokers and dealers? If not, what would be a more appropriate degree of responsibility, and what would be the necessary changes to the auditor's work?
6. Are there circumstances in which the auditor cannot provide an opinion on supplemental information in relation to the financial statements as a whole? If yes, what would those circumstances be, and what should the auditor's responsibilities be for that information?

**C. Materiality**

Consistent with AU sec. 551, the proposed standard includes a requirement for the auditor to use in the audit of the supplemental information the same considerations of materiality as that used in planning and performing the audit of the financial statements. Auditing Standard No. 11, *Consideration of Materiality in Planning and Performing an Audit*, describes the auditor's responsibilities for considering materiality in planning and performing an audit of the financial statements. Among other things, Auditing Standard No. 11 includes a requirement for the auditor to establish an appropriate materiality level for the financial statements as a whole, to establish a lower materiality level for certain accounts or disclosures in certain circumstances, and to determine tolerable misstatement for purposes of assessing risks and planning and performing audit procedures at the account or disclosure level. Under the proposed standard, the auditor uses the materiality level or levels and tolerable misstatement established in accordance with Auditing Standard No. 11 in planning and performing audit procedures regarding the supplemental information.

Also, Auditing Standard No. 14, *Evaluating Audit Results*, establishes requirements regarding, among other things, accumulating misstatements and evaluating uncorrected misstatements, including consideration of relevant qualitative

factors. Under the proposed standard, the auditor uses the same materiality considerations described in Auditing Standard No. 14 in accumulating and evaluating misstatements in the audit of supplemental information.

Question:

7. Are there certain types of supplemental information for which a different materiality consideration should be applied? If so, in what circumstances, and what materiality considerations, should be used in those circumstances?

**D. Required Audit Procedures Applicable to Supplemental Information**

The proposed standard includes a requirement for the auditor to perform audit procedures to obtain appropriate audit evidence that is sufficient to support the auditor's opinion on the supplemental information in relation to the financial statements as a whole. The audit procedures that are necessary to support the opinion on the supplemental information depend on the following:

- The risk of material misstatement of the supplemental information,
- The materiality of the information presented,
- The evidence obtained from the audit of the financial statements and, if applicable, other engagements by the auditor or affiliates of the firm for the period presented, and
- Whether a qualified opinion, an adverse opinion or a disclaimer of opinion was issued on the financial statements.

The risk of material misstatement of the supplemental information is important in determining the nature, timing, and extent of audit procedures to be performed. The higher the risk of material misstatement of the supplemental information, the more audit evidence the auditor should obtain to support his or her opinion.

The auditor's knowledge obtained from the audit of financial statements and related engagements (such as an engagement regarding compliance for a broker or dealer) should provide the necessary knowledge for the auditor to assess the risk of material misstatement regarding the supplemental information.

The procedures performed regarding the supplemental information should be planned and performed in conjunction with the audit of the financial statements and, for

audits of brokers and dealers, should be coordinated with the attestation engagements related to compliance or exemption reports required by the SEC. For example, evidence regarding the completeness and accuracy of the supplemental information that brokers and dealers are required to file pursuant to SEC Rule 17a-5 can be obtained from procedures performed during an engagement regarding compliance for a broker or dealer and include procedures regarding safeguarding securities or compliance with certain SEC rules.

The proposed standard includes a requirement for the auditor to perform the following procedures in the audit of supplemental information:

- a. Obtain an understanding of the purpose of the supplemental information and the criteria management used to prepare the supplemental information, including relevant regulatory requirements,
- b. Obtain an understanding of the methods of preparing the supplemental information and determine whether those methods have changed from the methods used in the prior period and, if the methods have changed, determine the reasons for and evaluate the appropriateness of such changes,
- c. Inquire of management about any significant assumptions or interpretations underlying the measurement or presentation of the supplemental information,
- d. Determine that the supplemental information reconciles to the underlying accounting and other records or to the financial statements, as applicable,
- e. Perform procedures to test the completeness and accuracy of supplemental information to the extent that it was not tested as part of the audit of financial statements, and
- f. Evaluate whether the form and content of the supplemental information comply with the relevant regulatory requirements or other applicable criteria, if any.

Some of the required procedures might be performed as part of testing accounts and disclosures in the audit of the financial statements. For example, in auditing the disclosures regarding net capital in a broker's or dealer's financial statements, the auditor might perform procedures that address the completeness and accuracy of the financial statements. The proposed standard does not require the auditor to re-test information that already has been tested in the audit of the financial statements.

The proposed standard requires the auditor to evaluate whether the form and content of the supplemental information comply with the relevant regulatory requirements or other applicable criteria, if any, because such compliance is important to the auditor's evaluation of whether the supplemental information is "fairly stated."

Questions:

8. Are there other factors that the auditor should consider that would affect the nature, timing, and extent of procedures in the audit of supplemental information?
9. Are there additional audit procedures that the proposed standard should require, for example, to address particular types of supplemental information?
10. Are the required audit procedures sufficiently clear and appropriate?

**E. Management Representations**

Unlike AU sec. 551, the proposed standard includes a requirement for the auditor to obtain written representations from management. Representations regarding the supplemental information included in management's letter of representations obtained by the auditor in connection with the audit of financial statements need not be repeated in a separate letter.

Question:

11. Are the representations in the proposed standard clear and appropriate? Are there any additional representations that the auditor should obtain from management for the auditor to provide an opinion on the supplemental information accompanying audited financial statements?

**F. Evaluation of Audit Results**

The proposed standard includes a requirement for the auditor to evaluate whether the supplemental information, including its form and content, is fairly stated, in all material respects, in relation to the financial statements as a whole including whether the supplemental information is presented in conformity, in all material respects, with the relevant regulatory requirements or other applicable criteria.



In the context of supplemental information, the phrase "fairly stated, in all material respects, in relation the financial statements as a whole" includes, among other things, that the supplemental information:

- Reconciles to the underlying accounting and other records, or to the financial statements, as applicable;<sup>6/</sup>
- Is complete and accurate;<sup>7/</sup> and
- Complies with the relevant regulatory requirements or other applicable criteria, if any.<sup>8/</sup>

The proposed standard establishes requirements for accumulating misstatements and evaluating uncorrected misstatements that are analogous to those for audits of financial statements.<sup>9/</sup> There is a requirement in the proposed standard for the auditor to accumulate misstatements regarding the supplemental information identified during the performance of audit procedures on the financial statements and the supplemental information and to communicate those accumulated misstatements to management on a timely basis to provide management with an opportunity to correct them.

The proposed standard includes a requirement for the auditor to evaluate whether uncorrected misstatements related to the supplemental information are material, either individually or in combination with other misstatements, taking into account relevant quantitative and qualitative factors. For example, a misstatement is material if it affects the determination of whether the broker or dealer is in compliance with SEC Rule 15c3-1 or 15c3-3. Also, in audits of brokers and dealers, misstatements in supporting schedules might be indicative of material non-compliance as a material weakness in internal control over compliance.

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<sup>6/</sup> See paragraph 4d of the proposed standard.

<sup>7/</sup> See paragraph 4e of the proposed standard.

<sup>8/</sup> See paragraph 6 of the proposed standard.

<sup>9/</sup> See Auditing Standard No. 11, *Consideration of Materiality in Planning and Performing an Audit*, and Auditing Standard No. 14, *Evaluating Audit Results*.

If the auditor determines that the supplemental information is materially misstated in relation to the financial statements as a whole, he or she would describe the material misstatement in the auditor's report on the supplemental information and express a qualified or adverse opinion on the supplemental information, in accordance with a requirement in the proposed standard.

There is a requirement in the proposed standard for the auditor to consider the effect of any modifications to the audit report on the financial statements when evaluating whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole. For example, if the auditor's report was qualified because of a material departure from GAAP relating to a particular account or disclosure, the auditor's report on supplemental information related to that account or disclosure also would require qualification.

Question:

12. Does the proposed standard sufficiently describe the requirements for evaluating the audit results in relation to financial statements?

**G. Reporting**

The proposed standard updates the existing requirements regarding reporting on supplemental information to describe the auditor's responsibilities for auditing the types of supplemental information covered by the proposed standard. The proposed standard includes a requirement for the auditor's report on supplemental information accompanying audited financial statements to include the following elements:

- a. Identification of the supplemental information. (Identification may be by descriptive title of the supplemental information or reference to the page number and document where the supplemental information is located.)
- b. A statement that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements.
- c. A statement that the audit procedures performed included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information.

- d. A statement that the audit procedures also included evaluating the form and content of the supplemental information.
- e. An opinion on whether the supplemental information is fairly stated in all material respects, in relation to the financial statements as a whole, or a disclaimer of opinion. If the form and content are prescribed by regulatory requirements or other applicable criteria, the opinion should also address whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria.
- f. A statement, if applicable, that the supplemental information is presented on a basis that differs from the financial statements and is not prescribed by regulatory requirements. When such a statement is made, the report should describe the basis for the supplemental information presentation.

The proposed standard does not retain from AU sec. 551 the statement that the supplemental information "is presented for purposes of additional analysis and is not a required part of the basic financial statements." Such a statement could be confusing to users of the financial statements, because most of the supplemental information that is audited and reported on in accordance with PCAOB standards is required by the SEC or other regulatory bodies.

There is a requirement in the proposed standard that the auditor's report should state that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements. This language differs from the report language in AU sec., 551 that states that the auditor's report should state that the supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements. Also, the proposed standard includes a requirement to describe certain of the procedures performed that address key elements of the auditor's opinion regarding whether the supplemental information is fairly stated. The reporting language in the proposed standard communicates more clearly the auditor's responsibilities regarding evaluating the supplemental information.

Consistent with AU sec. 551, the proposed standard states that, unless otherwise prescribed by regulatory requirements,<sup>10/</sup> the auditor may either include the auditor's

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<sup>10/</sup> SEC rule 17 CFR § 240.17a-5 requires an auditor's report on the broker or dealer's financial report, which includes both the financial statements and supporting schedules. Accordingly, the auditor's report on the supplemental information should be included in the auditor's report on the financial statements.

report on the supplemental information in the auditor's report on the financial statements or issue a separate report on the supplemental information. If the auditor issues a separate report on the supplemental information, the auditor's report on the supplemental information should refer to the auditor's report on the financial statements, in accordance with the proposed standard.

The date of the auditor's report on the supplemental information in relation to the financial statements as a whole should not be earlier than:

- a. The date of the auditor's report on the financial statements from which the supplemental information was derived, and
- b. The date on which the auditor obtained sufficient appropriate audit evidence to support the auditor's opinion on the supplemental information in relation to the financial statements as a whole.

The proposed standard includes an example of the auditor's opinion on supplemental information when included in the auditor's opinion on the financial statements. The proposed standard also states that if the auditor is unable to obtain sufficient appropriate evidence to support an opinion on the supplemental information, the auditor should disclaim an opinion on the supplemental information. In those situations, the auditor's report on the supplemental information should describe the reason for the disclaimer and state that the auditor is unable to and does not express an opinion on the supplemental information. If the supplemental information consists of two or more schedules, and the auditor is able to obtain sufficient appropriate evidence to support an opinion on some but not all schedules, the auditor may express an opinion on only those schedules for which he or she obtained sufficient appropriate evidence but should disclaim an opinion on the other schedules.

Questions:

13. Do the required elements of the auditor's report clearly communicate the auditor's responsibilities for the supplemental information?
14. What changes, if any, should be made to the form or content of the report described in the proposed standard? Are there additional auditor representations or other information that the auditor's report should include?

**II. Other Matters**

Unlike AU sec. 551, the proposed standard does not present separate requirements for reporting on consolidating information<sup>11/</sup> or co-existing information, because the auditor's responsibilities for such information are the same as those for other forms of supplemental information.

**III. Proposed Amendments to PCAOB Standards**

The Board is proposing amendments to several of its auditing standards to conform to the language of the proposed standard. Appendix 2 presents the proposed amendments to the existing auditing standards.

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<sup>11/</sup> Consolidated financial statements may include consolidating information or consolidating schedules presenting separate financial statements of one or more components of the consolidated group.

## **Appendix 4**

### ***Comparison of the Objective and Requirements of the Proposed Auditing Standard to the Analogous Standard of the Auditing Standards Board of the American Institute of Certified Public Accountants***

#### ***Introduction***

This appendix discusses certain significant differences between the requirements of the accompanying proposed standard in this release and the analogous standard of the Auditing Standards Board ("ASB") of the American Institute of Certified Public Accountants ("AICPA").<sup>1/</sup> This analysis does not cover the application and explanatory material in the ASB standard.<sup>2/</sup> The International Auditing and Assurance Standards Board ("IAASB") does not have an analogous standard.

This appendix is provided for informational purposes only. It is not a substitute for the proposed standard and related amendments, which are presented in Appendices 1 and 2 of this release, respectively. Appendix 3 to this release provides additional discussion about the requirements of the proposed auditing standard and related amendments that are discussed in this appendix.

This analysis may not represent the views of the ASB regarding its standard.

#### **Objective of the Auditor**

##### *PCAOB*

Under the proposed standard, the objective of the auditor of the financial statements, when engaged to audit and report on supplemental information, is to obtain sufficient appropriate audit evidence to express an opinion on whether the supplemental

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<sup>1/</sup> Statement on Auditing Standards, *Supplementary Information in Relation to the Financial Statements as a Whole* ("SAS 119") (February 2010).

<sup>2/</sup> Paragraph A63 of the ASB's proposed standard, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards*, states that although application and other explanatory material "does not in itself impose a requirement, it is relevant to the proper application of the requirements of an AU section."

information is fairly stated, in all material respects, in relation to the financial statements as a whole.

ASB

Statement on Auditing Standards, *Supplementary Information in Relation to the Financial Statements as a Whole* ("SAS 119") contains an objective that is similar to the proposed standard. However, the proposed standard emphasizes the importance of obtaining sufficient appropriate audit evidence by including this language within the objective.

### **Conditions in Order to Opine on Supplemental Information**

PCAOB

The proposed standard does not include this section. These conditions are not considered necessary in the proposed standard because the supplemental information covered by the proposed standard is required by the SEC or other regulatory bodies in many instances.

ASB

SAS 119 states that the auditor should determine that the supplementary information was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements, that the supplementary information relates to the same period as the financial statements, and that the financial statements were audited and the auditor served as the principal auditor in that engagement. As noted above, the proposed standard does not contain conditions considered necessary for the auditor to report on supplemental information. However, the scope of the proposed standard is similar in that it is limited to instances in which the auditor of the financial statements is engaged to audit and report on supplemental information accompanying audited financial statements.

SAS 119 states that the auditor should determine whether an adverse opinion or a disclaimer of opinion was issued on the financial statements in order to opine on whether supplemental information is fairly stated. Similarly, the proposed standard states that the auditor should consider the effect any modification to the auditor's report would have on the audit procedures necessary to support his or her report on supplemental information.

SAS 119 states that the auditor should determine that the supplementary information will accompany the entity's audited financial statements or that such audited

financial statements will be made readily available by the entity. The proposed standard does not require that the supplementary information accompany the entity's audited financial statements, or that such audited financial statements will be made readily available by the entity. Rules of the SEC and other regulatory agencies specify the requirements for filing or furnishing supplemental information.

### **Performing Audit Procedures on Supplemental Information Accompanying Audited Financial Statements**

#### *PCAOB*

The proposed standard includes a requirement that the auditor perform the following procedures:

- Obtain an understanding of the purpose of the supplemental information and the criteria management used to prepare the supplemental information, including relevant regulatory requirements,
- Obtain an understanding of the methods of preparing the supplemental information and determine whether those methods have changed from the methods used in the prior period and, if the methods have changed, determine the reasons for and evaluate the appropriateness of such changes,
- Inquire of management about any significant assumptions or interpretations underlying the measurement or presentation of the supplemental information,
- Determine that the supplemental information reconciles to the underlying accounting and other records or to the financial statements themselves, as applicable,
- Perform procedures to test the completeness and accuracy of supplemental information to the extent that it was not tested as part of the audit of financial statements, and
- Evaluate whether the form and content of the supplemental information comply with the relevant regulatory requirements or other applicable criteria, if any.



Additionally, the proposed standard includes a requirement that when planning and performing the audit of supplemental information, the auditor should use the same consideration of materiality as that used in planning and performing the audit of the financial statements.

*ASB*

SAS 119 requires that 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 certain procedures using the same materiality level used in the audit of the financial statements.

SAS 119 requires the auditor to inquire of management about the purpose of the supplementary information and the criteria used by management to prepare the supplementary information (e.g., an applicable financial reporting framework, criteria established by a regulator, a contractual agreement, or other requirements) and to determine whether the form and content of the supplementary information comply with the applicable criteria.

The proposed standard includes a requirement for the auditor to obtain an understanding of the purpose of the supplemental information and the criteria management used to prepare the supplemental information, including relevant regulatory requirements. Obtaining an understanding involves more than merely making inquiries regarding the supplemental information. The auditor's understanding should extend to include understanding the criteria the supplemental information is prepared in conformity with, if any.

SAS 119 requires the auditor to obtain an understanding about the methods of preparing the supplementary information and to 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. The proposed standard includes a requirement that, in the event that the methods used to prepare the supplemental information have changed from the prior period, the auditor should evaluate the appropriateness of such changes, not only the reasons for the changes.

SAS 119 requires the auditor to 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. The proposed standard includes a requirement the auditor determine that the supplemental information reconciles to the underlying accounting and other records or to the financial statements

themselves, not only to those records used in preparing the financial statements as certain schedules may be required by the SEC or other regulators.

## **Management's Representations**

### *PCAOB*

The proposed standard includes a requirement for the auditor to obtain from management certain written representations regarding the supplemental information.

### *ASB*

SAS 119 requires the auditor to obtain similar representations from management.

SAS 119 states that the auditor should obtain from management representations 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. The proposed standard does not require the auditor to obtain that representation because rules of the SEC and other regulatory agencies specify the requirements for filing or furnishing supplemental information. Further, the proposed standard does not include a requirement that the auditor's report on the supplemental information be included in any document that contains supplemental information for the same reason. As such, a similar requirement in the proposed standard is unnecessary.

## **Evaluation of Audit Results**

### *PCAOB*

The proposed standard includes a requirement for the auditor to evaluate whether the supplemental information, including its form and content, is fairly stated, in all material respects, in relation to the financial statements as a whole, including whether the supplemental information is presented in conformity, in all material respects with the relevant regulatory requirements or other applicable criteria.

The proposed standard includes a requirement for the auditor to accumulate misstatements regarding supplemental information identified during performance of audit procedures on the supplemental information and in the audit of the financial statements and to communicate the accumulated misstatements regarding the supplemental information to management on a timely basis to provide management with an opportunity to correct them.

The proposed standard includes a requirement for the auditor to evaluate whether uncorrected misstatements related to the supplemental information are material, either individually or in combination with other misstatements, taking into account relevant quantitative and qualitative factors.

*ASB*

SAS 119 requires the auditor to evaluate the appropriateness and completeness of the supplemental information, considering the results of the procedures performed and other knowledge obtained during the audit of the financial statements.

## **Reporting**

*PCAOB*

The proposed standard includes a requirement for the auditor to include certain elements in the auditor's report, including identification of the supplemental information, a statement that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements, and a description of certain audit procedures performed.

The proposed standard also includes a requirement that if the form and content of the supplemental information are prescribed by regulatory requirements or other applicable criteria, the auditor's report should address whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria.

Additionally, the proposed standard includes a requirement that if supplemental information is presented on a basis that differs from the financial statements and that basis is not prescribed by regulatory requirements, the report should state that and describe the basis for the presentation.

*ASB*

SAS 119 requires the auditor to include in an explanatory paragraph or separate report on supplementary information a statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The proposed standard does not include similar language.