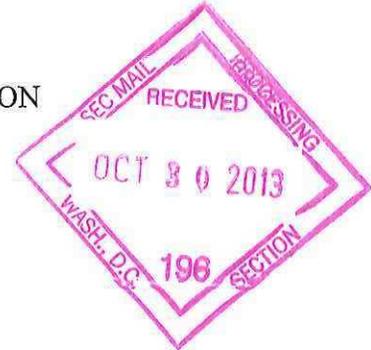


File No. PCAOB 2013-02
Consists of 215 Pages

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549



Form 19b-4

Proposed Rules

By

Public Company Accounting Oversight Board

In accordance with Rule 19b-4 under the
Securities Exchange Act of 1934

1. Text of the Proposed Rule

(a) Pursuant to the provisions of Section 107(b) of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposed auditing standard, Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements* ("Auditing Standard No. 17") and related amendments to PCAOB standards (collectively, the "proposed rules"). The proposed rule changes are attached as Exhibit A to this rule filing. In addition, the Board is also requesting the SEC's approval, pursuant to Section 103(a)(3)(c) of the Sarbanes-Oxley Act, of the application of Auditing Standard No. 17 to audits of emerging growth companies ("EGCs"), as that term is defined in Section 3(a)(80) of the Securities Exchange Act of 1934.¹ See Exhibit 3.

(b) Auditing Standard No. 17 would supersede the Board's auditing standard, AU sec. 511, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*.

(c) Not applicable.

2. Procedures of the Board

(a) The Board approved the proposed rules, and authorized them for filing with the SEC, at its open meeting on October 10, 2013. No other action by the Board is necessary for the filing of the proposed rules.

¹ Section 104 of the Jumpstart Our Business Startups Act provides that any additional rules adopted by the Board subsequent to April 5, 2012, do not apply to the audits of EGSs unless the SEC "determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors, and whether the actions will promote efficiency, competition, and capital formation." As a result, Auditing Standard No. 17, which was adopted by the Board after April 5, 2012, is subject to a separate determination by the SEC regarding its applicability to audits of EGCs.

(b) Questions regarding this rule filing may be directed to Keith Wilson, Deputy Chief Auditor (202-207-9134, wilsonk@pcaobus.org); Barbara Vanich, Associate Chief Auditor (202-207-9363, vanichb@pcaobus.org); Nicolas Grillo, Assistant Chief Auditor (202-207-9104, grillon@pcaobus.org) or Jennifer Williams, Assistant General Counsel (202-591-4173, williamsjg@pcaobus.org).

3. Board's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rules Change

(a) Purpose

Section 103 of the Sarbanes-Oxley Act directs the Board, by rule, to establish, among other things, "auditing and related attestation standards . . . to be used by registered public accounting firm in the preparation and issuance of audit reports, as required by th[e] [Sarbanes-Oxley] Act or the rules of the Commission, or as may be necessary or appropriate in the public interest or for the protection of investors." Auditing Standard No. 17 sets forth the auditor's responsibilities when the auditor of the financial statements is engaged to perform audit procedures 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.

As discussed more fully in Exhibit 3, a number of developments led the Board to re-examine its requirements regarding supplemental information. Primarily, Section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act² (the "Dodd-Frank Act") gave the Board oversight of audits of brokers and dealers registered with the SEC. On July 30, 2013, the Commission adopted amendments to SEC Rule 17a-5 to require, among other things, that an auditor engaged by the broker or dealer provide an audit report based on an auditor's examination

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

of the broker's or dealer's financial report, which consists of the financial statements and supporting schedules, in accordance with the standards of the PCAOB.³ However, the PCAOB's existing audit standards do not contemplate the SEC's requirements for an auditor's report on the examination of the financial statements and supporting schedules of a broker or dealer. The Board's existing standard, AU sec. 551, describes the auditor's reporting responsibilities regarding supplemental information accompanying auditing financial statements in terms of auditor-submitted documents and, additionally, does not specify audit procedures to be applied to test the supplemental information that is provided to the regulator. Accordingly, the Board decided to adopt Auditing Standard No. 17 and align its standard for performing auditing procedures and reporting on supplemental information with the SEC's requirements. Due to the importance of the required supplemental information for regulatory purposes, the Board also determined to include audit procedures designed to support the auditor's reporting requirements, including procedures for testing the supplemental information accompanying the financial statements.

Additionally, the amendments to SEC Rule 17a-5 also require certain brokers and dealers to include in their annual reports a compliance report that addresses, among other things, the broker's or dealer's compliance with the SEC rules requiring a broker or dealer to maintain a minimum level of net capital and a reserve of funds or qualified securities in an amount at least equal to the value of the amount of net funds owed to customers of the respective broker or

³ See paragraphs (f)(1) and (g)(1) of SEC Rule 17a-5. See also paragraph (d)(1)(i)(C) of SEC Rule 17a-5, which requires that the auditor's report on the examination of the financial report of the broker or dealer be filed with the Commission.

dealer.⁴ In conjunction with these recent amendments, the Board also is adopting new standards for attestation engagements (the "attestation standards") that relate to brokers' and dealers' compliance reports required in SEC Rule 17a-5.⁵ The requirements in the attestation standards are closely related to the audit requirements in this standard regarding supporting schedules for brokers and dealers. Among other things, the attestation standards emphasize the importance of coordinating the work in the compliance attestation engagement with the audit of the financial statements and audit procedures performed on the schedules required under SEC Rule 17a-5.⁶

In addition to the schedules required by SEC Rule 17a-5, Auditing Standard No. 17 covers supplemental information required to be presented pursuant to the rules and regulations of a regulatory authority when that information is reported on in relation to financial statements that are audited in accordance with PCAOB standards. For example, Auditing Standard No. 17 covers the schedules in Form 11-K of an 11-K filer that elects to file plan financial statements and schedules prepared in accordance with the financial reporting requirements of the Employee Retirement Income Security Act of 1974 ("covered 11-K filer").⁷

In the Board's view, Auditing Standard No. 17 promotes investor protection because of the importance of supplemental information in meeting regulatory objectives regarding audits of

⁴ See paragraphs (f)(1), (g)(2)(i) and (ii) of SEC Rule 17a-5. The net capital rule is 17 C.F.R. § 240.15c3-1, and the reserve requirements rule is paragraph (e) of 17 C.F.R. § 240.15c3-3.

⁵ See *Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards*, PCAOB Release No. 2013-007 (October 10, 2013).

⁶ Id.

⁷ The new standard would not apply to 11-K filers that do not make that election because the SEC-required schedules for those 11-K filers are part of the audited financial statements.

financial statements of brokers, dealers, and others. Because such information is often critical to the effectiveness of regulatory oversight, Auditing Standard No. 17 requires the performance of audit procedures to test the supplemental information to support the auditor's report on the supplemental information. The standard also requires the auditor to evaluate whether the supplemental information complies with applicable regulatory requirements, which should help facilitate consistent compliance with regulatory requirements and give regulators greater confidence about the reliability of the supplemental information provided for regulatory oversight activities that are important to investor protection.

Auditing Standard No. 17 also requires the auditor to coordinate the auditor's work with the financial statement audit. To the extent that the supplemental information relates to information in the financial statements, the enhanced audit attention to the supplemental information could enhance the confidence of regulators and other users in the reliability of the financial statements and supplemental information.

(b) Statutory Basis

The statutory basis for the proposed rules is Title I of the Sarbanes-Oxley Act.

4. Board's Statement on Burden on Competition

Not Applicable.

5. Board's Statement on Comments on the Proposed Rules Change Received from Members, Participants or Others

The Board initially released the proposed rules for public comment on July 12, 2011. See Exhibit 2(a)(A). The Board received 11 written comment letters relating to its initial proposed rules. See Exhibits 2(a)(B) and 2(a)(C).

6. Extension of Time Period for Commission Action

The Board does not consent to an extension of the time period specified in Section 19(b)(2) of the Securities Exchange Act of 1934.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rules Based on Rules of Another Board or of the Commission

Not applicable.

9. Exhibits

Exhibit A – Text of the Proposed Rules.

Exhibit 1 – Form of Notice of Proposed Rules for Publication in the Federal Register.

Exhibit 2(a)(A) – PCAOB Release No. 2011-005 (Proposed Release).

Exhibit 2(a)(B) – Alphabetical List of Comments on the Rules Proposed in PCAOB Release No. 2011-005.

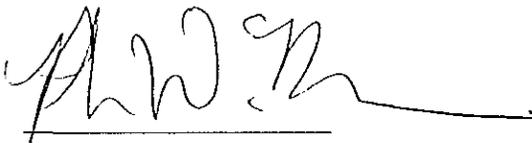
Exhibit 2(a)(C) – Written Comments on the Rules Proposed in PCAOB Release No. 2011-005.

Exhibit 3 – PCAOB Release No. 2013-008 (Adopting Release).

10. Signatures

Pursuant to the requirements of the Sarbanes-Oxley Act and the Securities Exchange Act of 1934, as amended, the Board has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Public Company Accounting Oversight Board

By: 

Phoebe W. Brown
Secretary

October 30, 2013

EXHIBIT A – TEXT OF THE PROPOSED RULES

Below is Auditing Standard No. 17 and amendments to the Board's interim auditing standards

Auditing Standard No. 17***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 perform audit procedures and report on **supplemental information**¹ that accompanies financial statements² audited pursuant to Public Company Accounting Oversight Board ("PCAOB") standards.

Objective

2. The objective of the auditor of the financial statements, when engaged to perform audit procedures 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 regarding whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole. The

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

² For purposes of this standard, supplemental information "accompanies financial statements" when it is (1) presented in the same document as the audited financial statements, (2) presented in a document in which the audited financial statements are incorporated by reference, or (3) incorporated by reference in a document containing the audited financial statements.

nature, timing, and extent of audit procedures necessary to obtain sufficient appropriate audit evidence and to report on the supplemental information depends on, among other things:

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

Note: When planning and performing the audit procedures to report on supplemental information, the auditor generally should use the same materiality considerations as those used in planning and performing the audit of the financial statements.³ However, if applicable regulatory requirements specify a lower materiality level to be applied to certain supplemental information, the auditor should use those prescribed threshold requirements in planning and performing audit procedures for the supplemental information.

- c. The evidence obtained from the audit of the financial statements and, if applicable, other engagements by the auditor or affiliates of the firm,⁴ 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").⁵ The auditor should take into account relevant evidence from the audit of the financial statements and, for audits of brokers or dealers, 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.

³ 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.

⁴ The term "affiliates of the firm" as used in this standard has the same meaning as the term "affiliates of the accounting firm" as defined in PCAOB Rule 3501.

⁵ See Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, and Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*.

- d. Whether a qualified opinion, an adverse opinion, or a disclaimer of opinion was issued on the financial statements.
4. In performing the audit procedures on 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, evaluate the appropriateness of those methods, 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 the information presented in the supplemental information to the extent that it was not tested as part of the audit of financial statements; and
 - f. Evaluate whether the supplemental information, including its form and content, complies with 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 fair presentation of the supplemental information and, if applicable, the form and content of that supplemental information, in conformity with relevant regulatory requirements or other applicable criteria;
- 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 other applicable criteria, and identification of those requirements or other applicable criteria; and
- e. A description of 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. To form an opinion on the supplemental information, 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.⁶ 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.

8. The auditor should 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.

Note: The auditor should evaluate the effect of uncorrected misstatements related to the supplemental information in evaluating the results of the financial statement audit.⁷

9. The auditor should evaluate the effect of any modifications to the audit report on the financial statements when forming an opinion on the supplemental information:

- a. When the auditor expresses a qualified opinion on the financial statements and the basis for the qualification also applies to the supplemental information, the auditor should describe the effects of the qualification on the supplemental information in the report on supplemental information and should express a qualified opinion on the supplemental information.

⁶ See paragraph 10 of Auditing Standard No. 14, *Evaluating Audit Results*, which discusses the auditor's responsibilities regarding the accumulation of misstatements in an audit of financial statements.

⁷ See paragraph 17 of Auditing Standard No. 14, which discusses evaluation of uncorrected misstatements in the financial statement audit.

- b. When the auditor expresses an adverse opinion, or disclaims an opinion on the financial statements, the auditor should express an adverse opinion, or disclaim an opinion, on the supplemental information, whichever is appropriate.

Reporting

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

- a. Identification of the supplemental information.

Note: 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 is the responsibility of management.
- c. A statement that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements.

Note: If the financial statements are presented in a separate document from the supplemental information or otherwise are not readily identifiable to the user of the supplemental information, the auditor's report on supplemental information should identify the document containing the company's financial statements.

- d. 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 presented in the supplemental information.
- e. A statement that in forming the auditor's opinion, the auditor evaluated whether supplemental information, including its form and content, complies, in all

material respects, with the specified regulatory requirements or other criteria, if applicable.

- 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.
- g. 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.

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 identify 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.⁸

⁸ AU sec. 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, sets forth procedures to be followed by the auditor who, subsequent to the date of the report upon audited financial statements becomes aware that facts may have existed at that date

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

The [identify supplemental information] has been subjected to audit procedures performed in conjunction with the audit of [Company's] financial statements. The [supplemental information] is the responsibility of the Company's management. 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 information presented in the [supplemental information]. In forming our opinion on the [supplemental information], we evaluated whether the [supplemental information], including its form and content, is presented in conformity with [specify the relevant regulatory requirement or other criteria, if any]. In our opinion, the [identify supplemental information] is fairly stated, in all material respects, in relation to the financial statements as a whole.

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 audit evidence to support an opinion on the supplemental information, the auditor should disclaim an opinion on the

that might have affected the report had he or she then been aware of such facts. AU sec. 561 applies to situations in which the auditor identifies a material misstatement of the financial statements while performing audit procedures on supplemental information after the date of the auditor's report on the financial statements.

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 audit 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 Rule 17a-5 under the Securities Exchange Act of 1934;¹
 - b. Supplemental information (i) required to be presented pursuant to the rules and regulations of a regulatory authority and (ii) covered by an independent public accountant's report on that information in relation to financial statements that are audited in accordance with PCAOB standards; or
 - c. Information that is (i) ancillary to the audited financial statements, (ii) derived from the company's accounting books and records, and (iii) covered by an independent public accountant's report on that information in relation to the financial statements that are audited in accordance with PCAOB standards.

¹ See 17 CFR § 240.17a-5 (d)(2).

Amendments to PCAOB Standards**Auditing Standard No. 16, "Communications with Audit Committees"**

Auditing Standard No. 16, *Communications with Audit Committees*, is amended as follows:

- a. The second sentence of footnote 27 to paragraph 14 is replaced with:

In addition to AU sec. 550, discussion of the auditor's consideration of other information is included in Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*, AU sec. 558, *Required Supplementary Information*, and AU sec. 711, *Filings Under Federal Securities Statutes*.

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 Auditing Standard No. 17, *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 voluntary disclosures should be labeled "unaudited" and the auditor should disclaim an opinion on the unaudited information.

- c. In the second flowchart in paragraph .10, "Auditing Guidance for Fair Value Information, Required and Voluntary 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, "Auditing Guidance for Fair Value Information, Required and Voluntary Information," 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. See paragraph 10 of Auditing Standard No. 17, *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 at the end of the paragraph, the sentence, "(See Section 551.)" is deleted.

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

SAS No. 8, "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 paragraph, the sentence "(see sections 551* and 623**)" is replaced with:

(See Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*, and AU sec. 623**).
 - Footnote * to paragraph .03 is deleted.
- b. Paragraph .07 is deleted.

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

SAS No. 29, "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"

SAS No. 42, "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:

Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*, sets forth the auditor's responsibilities when the

auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to Public Company Accounting Oversight Board standards.

AU sec. 558, "Required Supplementary Information"

SAS No. 52, "Required Supplementary Information" (AU sec. 558, "*Required Supplementary Information*"), as amended, is amended as follows:

- a. Footnote 3 to paragraph .03 is deleted.
- b. The second sentence of paragraph .05 is replaced with:

Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, sets forth the auditor's responsibilities when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to Public Company Accounting Oversight Board standards.
- c. Footnote 7 to paragraph .08 is replaced with:

Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, sets forth the auditor's responsibilities when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to Public Company Accounting Oversight Board standards.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-XXXXX; File No. PCAOB-2013-02)

[Date]

Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards

Pursuant to Section 107(b) of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), notice is hereby given that on October 30, 2013, the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") filed with the Securities and Exchange Commission (the "Commission" or "SEC") the proposed rules described in items I and II below, which items have been prepared by the Board. The Commission is publishing this notice to solicit comments on the proposed rules from interested persons.

I. Board's Statement of the Terms of Substance of the Proposed Rules

On October 10, 2013, the Board adopted Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements* and related amendments to its interim auditing standards (collectively, the "proposed rules"). The text of the proposed rules is set out below.

Auditing Standard No. 17Auditing Supplemental Information Accompanying Audited Financial StatementsIntroduction

1. This standard sets forth the auditor's responsibilities when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental

information¹ that accompanies financial statements² audited pursuant to Public Company Accounting Oversight Board ("PCAOB") standards.

Objective

2. The objective of the auditor of the financial statements, when engaged to perform audit procedures 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 regarding whether the supplemental information is fairly stated, in all material respects, 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 depends on, among other things:

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

Note: When planning and performing the audit procedures to report on supplemental information, the auditor generally should

¹ Terms defined in Appendix A, Definitions, are set in boldface type the first time they appear.

² For purposes of this standard, supplemental information "accompanies financial statements" when it is (1) presented in the same document as the audited financial statements, (2) presented in a document in which the audited financial statements are incorporated by reference, or (3) incorporated by reference in a document containing the audited financial statements.

use the same materiality considerations as those used in planning and performing the audit of the financial statements.³ However, if applicable regulatory requirements specify a lower materiality level to be applied to certain supplemental information, the auditor should use those prescribed threshold requirements in planning and performing audit procedures for the supplemental information.

- c. The evidence obtained from the audit of the financial statements and, if applicable, other engagements by the auditor or affiliates of the firm,⁴ 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").⁵ The auditor should take into account relevant evidence from the audit of the financial statements and, for audits of brokers or dealers, the

³ 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.

⁴ The term "affiliates of the firm" as used in this standard has the same meaning as the term "affiliates of the accounting firm" as defined in PCAOB Rule 3501.

⁵ See Attestation Standard No. 1, Examination Engagements Regarding Compliance Reports of Brokers and Dealers, and Attestation Standard No. 2, Review Engagements Regarding Exemption Reports of Brokers and Dealers.

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 performing the audit procedures on 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, evaluate the appropriateness of those methods, 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 the information presented in the supplemental information to the extent that it was not tested as part of the audit of financial statements; and

- f. Evaluate whether the supplemental information, including its form and content, complies with 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 fair presentation of the supplemental information and, if applicable, the form and content of that supplemental information, in conformity with relevant regulatory requirements or other applicable criteria;
 - 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 other applicable criteria, and identification of those requirements or other applicable criteria; and
 - e. A description of 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. To form an opinion on the supplemental information, 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.⁶ 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.

8. The auditor should 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.

Note: The auditor should evaluate the effect of uncorrected misstatements related to the supplemental information in evaluating the results of the financial statement audit.⁷

9. The auditor should evaluate the effect of any modifications to the audit report on the financial statements when forming an opinion on the supplemental information:

⁶ See paragraph 10 of Auditing Standard No. 14, Evaluating Audit Results, which discusses the auditor's responsibilities regarding the accumulation of misstatements in an audit of financial statements.

⁷ See paragraph 17 of Auditing Standard No. 14, which discusses evaluation of uncorrected misstatements in the financial statement audit.

- a. When the auditor expresses a qualified opinion on the financial statements and the basis for the qualification also applies to the supplemental information, the auditor should describe the effects of the qualification on the supplemental information in the report on supplemental information and should express a qualified opinion on the supplemental information.
- b. When the auditor expresses an adverse opinion, or disclaims an opinion on the financial statements, the auditor should express an adverse opinion, or disclaim an opinion, on the supplemental information, whichever is appropriate.

Reporting

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

- a. Identification of the supplemental information.

Note: 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 is the responsibility of management.
- c. A statement that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements.

Note: If the financial statements are presented in a separate document from the supplemental information or otherwise are not readily identifiable to the user of the supplemental information, the

auditor's report on supplemental information should identify the document containing the company's financial statements.

- d. 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 presented in the supplemental information.
 - e. A statement that in forming the auditor's opinion, the auditor evaluated whether supplemental information, including its form and content, complies, in all material respects, with the specified regulatory requirements or other criteria, if applicable.
 - 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.
 - g. 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.
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 identify 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.⁸
13. The following is an example of an auditor's report on supplemental information when included in the auditor's report on the financial statements:

The [identify supplemental information] has been subjected to audit procedures performed in conjunction with the audit of [Company's] financial statements. The [supplemental information] is the responsibility of the Company's management. 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 information presented in the [supplemental information]. In forming our opinion on the [supplemental information], we evaluated whether the [supplemental information], including its form and content, is presented in conformity with [specify the relevant regulatory requirement or

⁸ AU sec. 561, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report, sets forth procedures to be followed by the auditor who, subsequent to the date of the report upon audited financial statements becomes aware that facts may have existed at that date that might have affected the report had he or she then been aware of such facts. AU sec. 561 applies to situations in which the auditor identifies a material misstatement of the financial statements while performing audit procedures on supplemental information after the date of the auditor's report on the financial statements.

other criteria, if any]. In our opinion, the [identify supplemental information] is fairly stated, in all material respects, in relation to the financial statements as a whole.

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 audit 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 audit 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 Rule 17a-5 under the Securities Exchange Act of 1934;⁹
- b. Supplemental information (i) required to be presented pursuant to the rules and regulations of a regulatory authority and (ii) covered by an independent public accountant's report on that information in relation to financial statements that are audited in accordance with PCAOB standards; or
- c. Information that is (i) ancillary to the audited financial statements, (ii) derived from the company's accounting books and records, and (iii) covered by an independent public accountant's report on that information in relation to the financial statements that are audited in accordance with PCAOB standards.

Amendments to PCAOB Standards

Auditing Standard No. 16, "Communications with Audit Committees"

Auditing Standard No. 16, Communications with Audit Committees, is amended as follows:

- a. The second sentence of footnote 27 to paragraph 14 is replaced with:

In addition to AU sec. 550, discussion of the auditor's consideration of other information is included in Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, AU sec. 558, Required Supplementary Information, and AU sec. 711, Filings Under Federal Securities Statutes.

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:

⁹ See 17 CFR § 240.17a-5 (d)(2).

- 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 Auditing Standard No. 17, 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 voluntary disclosures should be labeled "unaudited" and the auditor should disclaim an opinion on the unaudited information.

- c. In the second flowchart in paragraph .10, "Auditing Guidance for Fair Value Information, Required and Voluntary 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, "Auditing Guidance for Fair Value Information, Required and Voluntary Information," 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. See paragraph 10 of Auditing Standard No. 17, 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 at the end of the paragraph, the sentence, "(See Section 551.)" is deleted.

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

SAS No. 8, "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 paragraph, the sentence "(see sections 551* and 623**)" is replaced with:

(See Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, and AU sec. 623**).

- Footnote * to paragraph .03 is deleted.

b. Paragraph .07 is deleted.

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

SAS No. 29, "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"

SAS No. 42, "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:

Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, sets forth the auditor's responsibilities when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to Public Company Accounting Oversight Board standards.

AU sec. 558, "Required Supplementary Information"

SAS No. 52, "Required Supplementary Information" (AU sec. 558, "Required Supplementary Information"), as amended, is amended as follows:

- a. Footnote 3 to paragraph .03 is deleted.
- b. The second sentence of paragraph .05 is replaced with:

Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, sets forth the auditor's responsibilities when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to Public Company Accounting Oversight Board standards.

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

Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, sets forth the auditor's responsibilities when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to Public Company Accounting Oversight Board standards.

II. Board's Statement of the Purpose of, and Statutory Basis for, the Proposed Rules

In its filing with the Commission, the Board included statements concerning the purpose of, and basis for, the proposed rules and discussed any comments it received on the proposed rules. The text of these statements may be examined at the places specified in Item IV below. The Board has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements. In addition, the Board is requesting that the Commission approve the proposed rules, pursuant to Section 103(a)(3)(C) of the Sarbanes-Oxley Act, for application to audits of emerging growth companies ("EGCs"), as that term is defined in Section 3(a)(80) of the Securities Exchange Act of 1934 ("Exchange Act"). The Board's request is set forth in section D.

A. Board's Statement of the Purpose of, and Statutory Basis for, the Proposed Rules

(a) Purpose

Section 103 of the Sarbanes-Oxley Act directs the Board, by rule, to establish, among other things, "auditing and related attestation standards . . . to be used by registered public accounting firm in the preparation and issuance of audit reports, as required by th[e] [Sarbanes-Oxley] Act or the rules of the Commission, or as may be necessary or appropriate in the public interest or for the protection of investors." Auditing Standard No. 17 requires auditors to perform certain audit procedures when engaged to audit and report on supplemental information accompanying financial statements. Supplemental information is required by regulators, including the SEC,¹⁰ who have determined the information is important in carrying out their regulatory oversight. The standard includes auditor performance requirements to (1) determine that the supplemental information reconciles to the underlying accounting and other records or to the financial statements, as applicable; (2) test the completeness and accuracy of the supplemental information, to the extent that it was not tested as part of the audit of the financial statements; and (3) evaluate whether the supplemental information, including its form and content, complies with relevant regulatory requirements or other applicable criteria, if any. The standard has been designed to promote coordination between the work performed on the

¹⁰ Rule 17a-5 under the Securities Exchange Act of 1934 ("Exchange Act") requires brokers and dealers registered with the SEC to submit financial reports to the SEC that include audited financial statements as well as certain required supporting schedules ("SEC Rule 17a-5"). See 17 CFR § 240.17a-5. On July 30, 2013, the SEC adopted amendments to SEC Rule 17a-5 to strengthen and clarify broker and dealer financial reporting requirements and also require that broker and dealer audits be conducted in accordance with PCAOB standards. See SEC Exchange Act Release No. 34-70073, Broker-Dealer Reports (July 30, 2013), 78 Federal Register 51910 (August 21, 2013) ("SEC Release").

supplemental information and the work performed on the financial statement audit. This approach should enhance audit effectiveness as well as avoid duplication of audit procedures.

In the Board's view, Auditing Standard No. 17 should provide regulators with greater confidence in the quality and consistency of supplemental information accompanying audited financial statements of brokers¹¹, dealers¹², and others.¹³ Supplemental information is often required by regulators for their oversight purposes. For example, the supplemental information brokers and dealers are required to include in their annual reports relates to their compliance with certain SEC rules regarding maintaining minimum net capital and reserves,¹⁴ specifically those governing the safeguarding of customer securities and funds in their filings with the Commission. Also, supplemental information includes schedules included in annual reports filed by employee stock purchase, savings, and similar plans on Form 11-K ("11-K filers"), For Annual Reports Of Employee Stock Purchase, Savings and Similar Plans Pursuant To Section

¹¹ 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.

¹² 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 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.

¹³ For example, certain employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974 ("ERISA") file an annual report with the Commission on Form 11-K, which includes the plan's financial statements and schedules prepared in accordance with the financial reporting requirements of ERISA. See 17 CFR § 240.15d-21, 17 CFR § 249.311 and item 4 of the "Required Information" section of SEC Form 11-K "For Annual Reports Of Employee Stock Purchase, Savings And Similar Plans Pursuant To Section 15(D) Of The Securities Exchange Act Of 1934."

¹⁴ See paragraph (d)(2) of SEC Rule 17a-5.

15(D) Of The Securities Exchange Act Of 1934,¹⁵ when those entities elect to file plan financial statements and schedules prepared in accordance with the financial reporting requirements of ERISA.¹⁶

As discussed more fully in Exhibit 3, a number of developments led the Board to re-examine its requirements regarding supplemental information. Primarily, Section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act¹⁷ (the "Dodd-Frank Act") gave the Board oversight of audits of brokers and dealers registered with the SEC. Under SEC Rule 17a-5, brokers and dealers are required to submit to the SEC financial reports containing certain schedules, including supporting schedules regarding (i) the computation of net capital; (ii) the computation for determination of reserve requirements; and (iii) information related to the broker's or dealer's possession or control of its clients' assets.¹⁸ These schedules provide important information that can support and assist the Commission and other broker or dealer "designated examining authorities"¹⁹ in their oversight of financial responsibility practices of brokers and dealers. In addition, as described in the SEC's release, one of the SEC's motivations for its amendments to SEC Rule 17a-5 to require that audits of brokers and dealers – including

¹⁵ See 29 CFR § 2520.103-1.

¹⁶ See 17 CFR § 240.15d-21, 17 CFR § 249.311, and item 4 of the "Required Information" section of SEC Form 11-K "For Annual Reports Of Employee Stock Purchase, Savings And Similar Plans Pursuant To Section 15(D) Of The Securities Exchange Act Of 1934."

¹⁷ Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010).

¹⁸ See paragraph (d)(2) of SEC Rule 17a-5.

¹⁹ Under SEC Rule 17d-1, Examination for Compliance with Applicable Financial Responsibility Rules, a registered broker or dealer that is a member of more than one securities self-regulatory organization may be assigned a "designated examining authority" or "DEA" that is responsible for examining the broker or dealer for compliance with SEC financial responsibility rules. An example of a securities self-regulatory organization that is a DEA is the Financial Industry Regulatory Authority.

the examination of the financial statements and supplemental schedules in the financial report – be conducted in accordance with PCAOB standards was to "better ensure alignment between broker-dealer audits and the regulatory policy objectives reflected in the Commission's financial responsibility rules."²⁰

On July 30, 2013, the Commission adopted amendments to SEC Rule 17a-5 to require, among other things, that an auditor engaged by the broker or dealer provide an audit report based on an auditor's examination of the broker's or dealer's financial report, which consists of the financial statements and supporting schedules, in accordance with the standards of the PCAOB.²¹ However, the PCAOB's existing audit standards do not contemplate the SEC's requirements for an auditor's report on the examination of the financial statements and supporting schedules of a broker or dealer. As noted earlier, the Board's existing standard, AU sec. 551, describes the auditor's reporting responsibilities regarding supplemental information accompanying audited financial statements in terms of auditor-submitted documents and, additionally, does not specify audit procedures to be applied to test the supplemental information that is provided to the regulator. Accordingly, the Board decided to adopt Auditing Standard No. 17 and align its standard for performing auditing procedures and reporting on supplemental information with the SEC's requirements. Due to the importance of the required supplemental information for regulatory purposes, the Board also determined to include audit procedures designed to support the auditor's reporting requirements, including procedures for testing the supplemental information accompanying the financial statements.

²⁰ See the SEC Release at 208.

²¹ See paragraphs (f)(1) and (g)(1) of SEC Rule 17a-5. See also paragraph (d)(1)(i)(C) of SEC Rule 17a-5, which requires that the auditor's report on the examination of the financial report of the broker or dealer be filed with the Commission.

Additionally, the amendments to SEC Rule 17a-5 also require certain brokers and dealers to include in their annual reports a compliance report that addresses, among other things, the broker's or dealer's compliance with the SEC rules requiring a broker or dealer to maintain a minimum level of net capital and a reserve of funds or qualified securities in an amount at least equal to the value of the amount of net funds owed to customers of the respective broker or dealer.²² In conjunction with these recent amendments, the Board also is adopting new standards for attestation engagements (the "attestation standards") that relate to brokers' and dealers' compliance reports required in SEC Rule 17a-5.²³ The requirements in the attestation standards are closely related to the audit requirements in this standard regarding supporting schedules for brokers and dealers. Among other things, the attestation standards emphasize the importance of coordinating the work in the compliance attestation engagement with the audit of the financial statements and audit procedures performed on the schedules required under SEC Rule 17a-5.²⁴

In addition to the schedules required by SEC Rule 17a-5, Auditing Standard No. 17 covers supplemental information required to be presented pursuant to the rules and regulations of a regulatory authority when that information is reported on in relation to financial statements that are audited in accordance with PCAOB standards. For example, Auditing Standard No. 17 covers the schedules in Form 11-K of an 11-K filer that elects to file plan financial statements and

²² See paragraphs (f)(1), (g)(2)(i) and (ii) of SEC Rule 17a-5. The net capital rule is 17 CFR § 240.15c3-1, and the reserve requirements rule is paragraph (e) of 17 CFR § 240.15c3-3.

²³ See Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards, PCAOB Release No. 2013-007 (October 10, 2013).

²⁴ Id.

schedules prepared in accordance with the financial reporting requirements of ERISA ("covered 11-K filer").²⁵

In the Board's view, Auditing Standard No. 17 promotes investor protection because of the importance of supplemental information in meeting regulatory objectives regarding audits of financial statements of brokers, dealers, and others. Because such information is often critical to the effectiveness of regulatory oversight, Auditing Standard No. 17 requires the performance of audit procedures to test the supplemental information to support the auditor's report on the supplemental information. The standard also requires the auditor to evaluate whether the supplemental information complies with applicable regulatory requirements, which should help facilitate consistent compliance with regulatory requirements and give regulators greater confidence about the reliability of the supplemental information provided for regulatory oversight activities that are important to investor protection.

For example, in the context of oversight of brokers and dealers, the requirements in the standard for testing and evaluating supplemental information could improve the quality of the supporting schedules that regulators rely on when considering whether the broker or dealer maintains adequate safeguards over customer funds and securities. Also, strengthening and clarifying the auditing requirements for applying procedures and reporting on supplemental information could facilitate consistent compliance with SEC Rule 17a-5.

For 11-K filers, the requirements in the standard for testing and evaluating supplemental information may increase the quality of information available to investors, especially the plans' participants.

²⁵ The new standard would not apply to 11-K filers that do not make that election because the SEC-required schedules for those 11-K filers are part of the audited financial statements.

Auditing Standard No. 17 also requires the auditor to coordinate the auditor's work with the financial statement audit. To the extent that the supplemental information relates to information in the financial statements, the enhanced audit attention to the supplemental information could enhance the confidence of regulators and other users in the reliability of the financial statements and supplemental information.

(b) Statutory Basis

The statutory basis for the proposed rules is Title I of the Sarbanes-Oxley Act.

B. Board's Statement on Burden on Competition

Not Applicable.

C. Board's Statement on Comments on the Proposed Rules Received from Members, Participants or Others

The Board released the proposed rules for public comment in PCAOB Release No. 2013-008 (October 10, 2013). The Board received eleven written comment letters. The Board has carefully considered all comments received. The Board's response to the comments it received and the changes made to the rules in response to the comments received are discussed below.

Applicability of the Standard and Definition of Supplemental Information (Appendix A – Definitions)

Auditing Standard No. 17 applies when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to PCAOB standards.

The SEC and other regulators may require regulated entities, such as brokers and dealers, to file supplemental information with their annual financial reports for regulatory purposes.²⁶ In

²⁶ Rule 17a-5 under the Securities Exchange Act of 1934 ("Exchange Act") requires brokers and dealers registered with the SEC to submit financial reports to the SEC that include audited financial statements as well as certain required supporting schedules ("SEC Rule 17a-5").

other cases, companies may voluntarily provide supplemental information that is derived from, or ancillary to, the company's financial statements audited pursuant to PCAOB standards.

The proposed standard included a definition of the types of supplemental information to which this standard would apply. In response to questions in the proposing release, several commenters stated that the proposed definition was appropriate, while other commenters expressed concern that, as the proposed definition was expressly tailored to supplemental information included in certain SEC filings by brokers and dealers, the definition did not describe all types of supplemental information that auditors of issuers, brokers, and dealers might be engaged to report on.

In particular, several commenters expressed concern that the proposed definition would exclude certain types of supplemental information because that information is not included in SEC filings. One commenter noted that information that is ancillary to financial statements and not otherwise required to be presented pursuant to the rules and regulations of the SEC or another relevant regulatory body, may also be reported on, but not included in an SEC filing. Another commenter gave examples of situations when issuers engage auditors to report on supplemental information that would be excluded under the proposed standard's definition of supplemental information, including subsidiary-specific data or information used to calculate financial ratios related to a loan covenant or other contractual provision.

After consideration of these comments, the definition of supplemental information has been revised to remove the references to SEC filings. Auditing Standard No. 17 covers the following types of supplemental information:

See 17 CFR § 240.17a-5. Paragraph (d)(2) of SEC Rule 17a-5 specifically addresses the supporting schedules. See also SEC Exchange Act Release No. 34-70073, Broker-Dealer Reports (July 30, 2013), 78 Federal Register 51910 (August 21, 2013) ("SEC Release").

- a. Supporting schedules that brokers and dealers are required to file pursuant to SEC Rule 17a-5;²⁷
- b. Supplemental information (i) required to be presented pursuant to the rules and regulations of a regulatory authority and (ii) covered by an independent public accountant's report on that information in relation to financial statements that are audited in accordance with PCAOB standards; or
- c. Information that is (i) ancillary to the audited financial statements, (ii) derived from the company's accounting books and records, and (iii) covered by an independent public accountant's report on that information in relation to the financial statements that are audited in accordance with PCAOB standards.

As mentioned previously, the standard covers supplemental information required by regulatory authorities and supplemental information that is voluntarily provided, when the auditor is engaged to report on that information in relation to the financial statements as a whole and the financial statements are audited in accordance with PCAOB standards. However, the standard itself does not impose an obligation to audit such supplemental information.

By its terms, the standard would not apply to unaudited supplemental information. For example, the standard would not apply to the information required by the accounting standards or Item 302 of SEC Regulation S-K, 17 CFR § 229.302. Similarly, auditors should continue to look to the requirements of AU sec. 558, Required Supplementary Information, regarding unaudited information about oil and gas producing activities required by Item 302(b) of Regulation S-K 17 CFR § 229.302(b) and Financial Accounting Standards Board's Accounting Standards Codification, Topic 932, Extractive Industries – Oil and Gas, section 932-50-2.

²⁷ See paragraph (d)(2) of SEC Rule 17a-5.

Likewise, auditors should continue to look to the requirements of AU sec. 722, Interim Financial Information, regarding selected quarterly financial data required by Item 302(a) of Regulation S-K. Additionally, auditors should continue to look to AU sec. 550, Other Information in Documents Containing Audited Financial Statements, including Management's Discussion and Analysis of Financial Condition and Results of Operations, unless the auditor is engaged to examine and report on that information.

Further, the standard does 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, in those instances, the auditor of the supplemental information should look to the requirements in AU sec. 623, Special Reports.

Some commenters suggested that the standard would not apply to supplemental information prepared after the financial statement audit because of the requirement in the proposed standard, and related statement in the auditor's report, that the audit procedures on the supplemental information be performed in conjunction with the audit of the financial statements. Auditing Standard No. 17 applies when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies audited financial statements, regardless of the timing of the preparation of the supplemental information.

To address issues regarding timing, a footnote was added to paragraph 1 of the standard to clarify that supplemental information "accompanies financial statements" when it is (1)

presented in the same document as the audited financial statements, (2) presented in a document in which the audited financial statements are incorporated by reference, or (3) incorporated by reference in a document containing the audited financial statements.

Additionally, the note to paragraph 3.c. of the standard includes the phrase "in conjunction with." That phrase is meant to indicate that the auditor of the financial statements is in a position to take into account other information available as a result of the financial statement audit, but Auditing Standard No. 17 does not require that the two engagements be performed simultaneously. The note to paragraph 3.c. explains the auditor's responsibilities for performing audit procedures on the supplemental information "in conjunction with" the audit of the financial statements. That note states that the auditor should take into account relevant evidence from the audit of the financial statements and the attestation engagements²⁸ 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. As such, the language in the standard was retained largely as proposed.

Exclusion of Schedules Required by SEC Regulation S-X

Some commenters expressed concern with the definition of supplemental information because of the discussion in the proposing release,²⁹ which stated that the standard would not

²⁸ See Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards, PCAOB Release No. 2013-007 (October 10, 2013).

²⁹ See Section I.A.1 of Proposed Auditing Standard, Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards, PCAOB Release No. 2011-005 (July 12, 2011).

apply to schedules prepared pursuant to SEC Regulation S-X.³⁰ One commenter noted that diversity in practice suggests that these schedules may be considered supplementary and not part of the basic financial statements covered by the standard auditor's opinion. The views of these commenters are not consistent with SEC requirements. Section 1-01(b) of SEC Regulation S-X³¹ states "the term financial statements as used...shall be deemed to include all notes to the statements and all related schedules". Thus, it is clear that the schedules required by SEC Regulation S-X are part of the financial statements. As such, no changes were made to the standard.³²

"In Relation to" the Financial Statements as a Whole (Paragraphs 1 and 2)

As stated in the proposing release, the auditor's report on supplemental information in the 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. In order to express an opinion on the supplemental information the auditor performs the procedures set forth in the standard, to the extent not performed in the course of the audit. The concept of expressing an opinion on the supplemental information "in relation to" the financial statements as a whole carries over from the Board's existing standard for supplemental information, AU sec. 551.

The proposing release requested comment regarding whether to change from the AU sec. 551 "in relation to" approach to reporting on supplemental information to a stand-alone reporting approach. Overall, commenters supported the decision to retain the "in relation to" approach.

³⁰ See Section 1-01(b) of SEC Regulation S-X, 17 CFR § 210.1-01(b).

³¹ See e.g., Rules 5-04, 6-10, 6A-05, 7-05, and Article 12 of Regulation S-X, 17 CFR § 210.5-04, 6-10, 6A-05, 7-05, and 12.

³² The schedules required by SEC 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.

One commenter stated that it was an appropriate degree of responsibility for supplemental information. Another commenter stated that the level of assurance provided by this type of engagement meets the needs of users in a cost-effective manner.

After consideration of the comments received, the Board determined that the "in relation to" approach remains appropriate for reporting on supplemental information accompanying audited financial statements. Nothing in the comments received indicates that an "in relation to" opinion on supplemental information is inadequate for financial statement users or that the additional cost for stand-alone assurance is warranted for all engagements involving supplemental information. The Board also considered that existing standards, specifically AU sec. 623, establish requirements in those limited situations in which auditors are engaged to audit supplemental information on a stand-alone basis.

Some commenters expressed concern that use of the word "audit" in the introduction and objective paragraphs of the proposed standard implied that the standard requires the auditor to issue a stand-alone audit opinion on supplemental information and that the reference to audit goes beyond the meaning of "in relation to."

The standard does not require the auditor to issue a stand-alone audit opinion on the supplemental information. However, the standard emphasizes that the auditor should perform procedures to obtain sufficient appropriate audit evidence to support his or her opinion that the supplemental information is fairly stated, in all material respects, "in relation to" the financial statements as a whole. To avoid misperceptions, the wording in paragraphs 1 and 2 of the standard has been revised to state, ". . . when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information" Further, several of the amendments to PCAOB standards were revised to reflect this wording.

Materiality (Paragraph 3)

The proposed standard included a requirement for the auditor, in the performance of audit procedures on supplemental information, to use the same materiality considerations as those 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. Commenters generally supported using the same materiality considerations for supplemental information as those used in the financial statement audit. In general, auditors that are engaged to express an opinion on supplemental information "in relation to" the financial statements as a whole use the same materiality considerations for the audit of the supplemental information as those used in planning and performing the audit of the financial statements.

One commenter recommended that the standard acknowledge instances in which regulatory requirements may prescribe a materiality level for audit procedures over supplemental information that differs from the materiality level used in the audit of the financial statements. As auditors might encounter instances in which this occurs, a note has been added to paragraph 3.b. of the standard stating that "if applicable regulatory requirements specify a lower materiality level to be applied to certain supplemental information, the auditor should use those prescribed threshold requirements in planning and performing audit procedures for the supplemental information." For example, if the supplemental information consisted of a list of transactions over a threshold specified by a regulatory agency, the auditor should use that prescribed threshold in planning and performing the audit procedures to be applied to the supplemental information. This is consistent with the requirement in Auditing Standard No. 11 to use a lower materiality level for accounts and disclosures for which there is a substantial likelihood that

misstatements of lesser amounts than the materiality level established for the financial statements as a whole would influence the judgment of a reasonable investor.³³

Another commenter expressed concern that paragraph 3 of the proposed standard, which requires the auditor to base the nature, timing, and extent of audit procedures on, among other things, the materiality of the information presented, implied that the auditor will undertake a second audit, separate from the audit of the financial statements. Paragraph 3 of the standard does not require the auditor to perform a second audit. The note to paragraph 3.b. specifically provides that the auditor should use the same materiality considerations for the supplemental information as that for the audit of the financial statements. In general, the objective of using the same materiality considerations from the financial statement audit is consistent with the principle of reporting on the supplemental information in relation to the financial statements as a whole. As such, paragraph 3 was retained substantially as proposed. If the auditor is engaged to audit and report on a stand-alone basis (i.e., not "in relation to"), separate and apart from the audit of the financial statement, the auditor should look to the requirements in AU sec. 623. A stand-alone audit of supplemental information under AU sec. 623 is usually more extensive than applying audit procedures and reporting on supplemental information in relation to the financial statements taken as a whole.³⁴

Performing Audit Procedures on Supplemental Information Accompanying Audited Financial Statements (Paragraphs 3 and 4)

Similar to AU sec. 551, the standard auditor's report on supplemental information pursuant to Auditing Standard No. 17 includes an opinion on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a

³³ See paragraph 7 of Auditing Standard No. 11.

³⁴ See AU sec. 623.13.

whole. As with any audit opinion, it is necessary for the auditor to obtain reasonable assurance so the auditor has a reasonable basis for that opinion.³⁵ Accordingly, Auditing Standard No. 17 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.

At the same time, Auditing Standard No. 17 recognizes that the circumstances in which the auditor expresses an opinion on supplemental information differ from those of a stand-alone audit. That is, the opinion under Auditing Standard No. 17 is expressed in relation to the financial statements as a whole, and the auditor's procedures on the financial statements ordinarily provide substantial evidence that is relevant to the supplemental information. Thus, the standard provides that 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:

- The risk of material misstatement of the supplemental information;
- The materiality considerations relevant to 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 accounting firm for the period presented; and
- Whether a qualified opinion, an adverse opinion, or a disclaimer of opinion was issued on the financial statements.

³⁵ This also is consistent with the requirements of SEC Rule 17a-5, which requires the auditor to perform an examination of the broker's or dealer's financial report, which consists of the financial statements and supplemental schedules. See paragraph (g) of SEC Rule 17a-5. See also the SEC Release at 74, which discusses the SEC's intention that the auditor obtain reasonable assurance regarding the financial statements and supporting schedules of brokers and dealers.

Further, the standard states that 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, the procedures should be coordinated with the attestation engagements related to compliance or exemption reports required by the SEC.³⁶ One commenter stated that this requirement implies that the auditor would be required to separately consider and document audit planning considerations relative to supplemental information.

While the standard requires the auditor to assess the risk of material misstatement of the supplemental information as part of determining the nature, timing, and extent of audit procedures, the standard allows this assessment to be performed with, and informed by, the planning and performance of procedures relating to the financial statement audit. The auditor's knowledge obtained from the audit of financial statements and any related engagements (such as an attestation engagement) should generally provide necessary knowledge for the auditor to assess the risk of material misstatement regarding the supplemental information.

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 may be obtained from procedures performed during an attestation engagement regarding compliance for a broker or dealer and include procedures regarding safeguarding securities or compliance with certain SEC rules.

In addition, paragraph 4 of the standard includes requirements for the auditor to perform the following procedures on supplemental information:

³⁶ For example, a compliance examination performed pursuant to Attestation Standard No. 1, Examination Engagements Regarding Compliance Reports of Brokers and Dealers, includes compliance tests relating to the schedules the broker or dealer used to determine compliance with the SEC's net capital rule, 17 CFR § 240.15c3-1, and the reserve requirements rule, paragraph (e) of 17 CFR § 240.15c3-3.

- 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, evaluate the appropriateness of those methods, 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 information presented in the supplemental information to the extent that it was not tested as part of the audit of financial statements; and
- f. Evaluate whether the supplemental information, including its form and content, complies with relevant regulatory requirements or other applicable criteria, if any.

Some commenters stated that certain of the required procedures in the proposed standard exceeded those procedures necessary to support an auditor's "in relation to" opinion on supplemental information. Commenters stated that the required procedures in paragraph 4.d. and 4.e. expand the scope of the auditor's responsibility as compared to the existing requirements in AU sec. 551 with respect to information that was not derived from the underlying accounting records. One commenter further stated that information not derived from the underlying

accounting records, by its nature, is not subject to internal control over financial reporting and likely would not have been subjected to the auditor's procedures in the audit of the financial statements.

In many instances, supplemental information reported on under PCAOB standards is required by regulators that have determined that the information required is important to carrying out their regulatory authority, and users of that information can reasonably expect that an auditor's report on supplemental information means that the supplemental information has been subjected to audit procedures. This is consistent with AU sec. 551.07, which states that the auditor may "choose to modify or redirect certain of the procedures to be applied in the audit of the basic financial statements so that [the auditor] may express an opinion on the accompanying information" under that standard. If, as some commenters suggested, the auditor's procedures are limited to solely those procedures performed in the financial statement audit, it is possible that few or no audit procedures might be applied directly to the supplemental information in some engagements, and the auditor would have little or no basis for his or her opinion.

One commenter suggested a revision to the proposed requirement regarding the auditor's responsibility for understanding and evaluating the methods used by management to prepare the supplemental information. The commenter recommended that the auditor should evaluate the appropriateness of the methods used by management to prepare the supplemental information, as well as any changes to those methods. Such a suggestion can be viewed as a necessary step in evaluating whether the supplemental information is fairly stated, so the standard has been revised to specifically include that procedure.

One commenter suggested that consultation with legal counsel or other experts may be necessary. The standard does not prohibit such consultations. Other commenters suggested that

additional procedures be included in the standard, such as a requirement for the auditor to consider the complexity of the methodology used to prepare supplemental information, particularly in those situations in which complex analytical or sampling techniques have been employed in the preparation of underlying data. These suggestions did not warrant changes to the standard because the suggested examples are factors that affect the risk of material misstatement of the supplemental information, which the standard already addresses in paragraph 3.

Management Representations (Paragraph 5)

The proposed standard included a requirement for the auditor to obtain written representations from management. Commenters generally supported the language as proposed. One commenter recommended that the standard include an additional requirement for auditors to obtain a representation that management acknowledge its responsibility for the fair presentation of the supplemental information, including its form and content, in accordance with regulatory requirements or other applicable criteria. This additional requirement has been incorporated into the standard.

One commenter suggested that the standard specifically address management representations with respect to supplemental information arising after the auditor has been engaged to perform the financial statement audit. As discussed previously, the auditor's and management's responsibilities relating to supplemental information are not affected by timing considerations, such as whether or not the audit procedures required for the supplemental information were considered when the auditor was first engaged to audit the financial statements; therefore, no changes were made to the standard to address such circumstances. Further, the standard does not prohibit auditors from obtaining additional representations from management

in the case in which the auditor believes additional management representations would be appropriate under the circumstances.

Evaluation of Audit Results (Paragraphs 6 – 9)

The proposed standard included 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 evaluation should encompass, among other things, whether the information: is complete and accurate, is consistent with the audited financial statements, and complies with relevant regulatory requirements, if applicable.

Commenters generally agreed that the auditor's evaluation of form and content is important to the auditor's evaluation as to whether the supplemental information is fairly stated. One commenter suggested that modification be made to paragraph 6 so that the evaluation of audit results is in the context of the auditor's responsibility to form an opinion on the supplemental information. This recommendation has been reflected in the standard because it provides additional context that helps to clarify the auditor's responsibilities in this area.

Paragraph 9 of the proposed standard included a requirement 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. One commenter stated that the auditor should be prohibited from expressing an "in relation to" opinion on the supplemental information when an adverse or disclaimer of opinion has been issued. Other commenters suggested that additional guidance would be necessary regarding the effect of modification of the auditor's report on the financial

statements on the auditor's report on supplemental information. Some commenters suggested that the standard be revised to follow the requirements in the existing standard more closely regarding when the auditor has issued an adverse opinion or disclaims an opinion on the financial statements.

After consideration of the comments received, the standard was revised to include updated and expanded direction on reporting in these situations. Specifically, paragraph 9 of the standard has been revised to state that the auditor should evaluate the effect of any modifications to the audit report on the financial statements when forming an opinion on supplemental information. The standard provides that:

- a. When the auditor expresses a qualified opinion on the financial statements and the basis for the qualification also applies to the supplemental information, the auditor should describe the effects of the qualification on the supplemental information in the report on supplemental information and should express a qualified opinion on the supplemental information.
- b. When the auditor expresses an adverse opinion, or disclaims an opinion on the financial statements, the auditor should express an adverse opinion, or disclaim an opinion, on the supplemental information, whichever is appropriate.

Reporting (Paragraphs 10 – 15)

The proposed standard included requirements regarding reporting on supplemental information that described the auditor's responsibilities when reporting on the types of supplemental information covered by the proposed standard.

The 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." One commenter supported retaining this wording in the standard. However, such a statement could be misunderstood by users as indicating that the supplemental information is supplied on a voluntary basis even when governed by rules regarding content or presentation. In fact, supplemental information presented by brokers, dealers, and others often is presented in conjunction with audited financial statements to comply with rules of regulatory agencies that generally specify the form and content of the information to be provided.

Further, the standard does not retain from AU sec. 551 the statement that "the audit has been performed for the purpose of forming an opinion on the basic financial statements taken as a whole." One commenter supported including this wording in the standard. However, such a statement could confuse users regarding the relationship between the audit of financial statements and the auditor's "in relation to" opinion on supplemental information given that audit procedures have been performed on the supplemental information that serve to support the auditor's "in relation to" opinion.

The reporting language in the standard is intended to clearly communicate the auditor's responsibilities regarding evaluating the supplemental information. For example, the standard requires the auditor's report to state that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements. Also, the standard includes a requirement for the auditor to describe the audit procedures on the supplemental information. This approach differs from the report language provided in AU sec. 551, which provides that the auditor's report should state that the supplemental information has been subjected to the auditing procedures that were applied in the audit of the basic financial statements.

Consistent with AU sec. 551, paragraph 11 of the standard states that, unless prescribed by regulatory requirements,³⁷ 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, the standard provides that the auditor's report on the supplemental information should identify the auditor's report on the financial statements.

The standard also includes an example of the auditor's report on supplemental information when included with the auditor's report on the financial statements.

One commenter suggested that the reporting elements include a statement that the supplemental information is the responsibility of management and that such a revision would serve to clarify the auditor's responsibility in this area. This recommendation has been incorporated into the list of required elements in the auditor's report on supplemental information. Some commenters expressed concern that report language in paragraph 13 of the proposed standard, ". . . and accordingly, its form and content comply, in all material respects, with the relevant regulatory requirements," could be viewed as a separate opinion regarding compliance or as conveying more responsibility for form and content than appropriate.

Because the intention of the proposed standard was not to require a stand-alone opinion on the supplemental information or on compliance, the standard includes revised report elements intended to emphasize that the auditor's evaluation of form and content is part of determining whether the supplemental information is fairly stated, in all material respects, in relation to the audited financial statements rather than a separate opinion on compliance. The revisions are also

³⁷ For example, paragraph (g)(1) of SEC Rule 17a-5 requires the auditor to prepare an auditor's report on the broker's or dealer's financial report, which covers both the financial statements and supporting schedules.

responsive to commenters who were generally supportive that evaluating form and content is important to the auditor's determination of whether supplemental information is fairly stated in relation to the audited financial statements.

The standard states that if the auditor is unable to obtain sufficient appropriate audit 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 audit 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. The standard provides the elements that should be included in the auditor's report on supplemental information, many of which are the same as those included in the proposed standard.

Other commenters expressed concern that the reporting requirements in the proposed standard would require a registered public accounting firm to make a legal determination regarding a company's compliance with relevant regulatory rules. The auditor's report issued pursuant to the standard does not provide, or purport to provide, a legal determination of a broker's or dealer's compliance with the net capital rule or the reserve requirements rule or any other legal determination. However, such a report may be useful to legal counsel or others in making such determinations.

One commenter suggested including a reference to AU sec. 561, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report, in the proposed standard. The commenter suggested that this standard might be applicable in situations in which the date of the auditor's report on supplemental information is subsequent to the date of the auditor's report on the financial statements. Such a revision would serve to remind auditors of their responsibilities under AU sec. 561. A footnote to paragraph 12.b. was added to address this topic.

Comparison of the Requirements of Auditing Standard No. 17 with the Analogous Standard of the Auditing Standards Board of the American Institute of Certified Public Accountants

The release accompanying the proposed standard discussed certain noteworthy differences between requirements of Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, and the analogous standard of the Auditing Standards Board ("ASB") of the American Institute of Certified Public Accountants ("AICPA"). The analogous standard of the AICPA is Statement on Auditing Standards, Supplementary Information in Relation to the Financial Statements as a Whole ("AU-C Section 725").³⁸ This comparison does not cover the application and explanatory material in the ASB standard.³⁹ The International Auditing and Assurance Standards Board does not have an analogous standard.

³⁸ These AU-C Sections are contained in Statement on Auditing Standards No. 122, Statement on Auditing Standards: Clarification and Recodification ("SAS No. 122"). In October 2011, the ASB adopted SAS No. 122, which contains 39 clarified SASs with "AU-C" section numbers for each clarified SAS. The "AU-C" is a temporary identifier to avoid confusion with references to existing "AU" sections in AICPA Professional Standards.

³⁹ Paragraph A64 of the AU-C 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards, states that although such guidance "does not in itself impose a requirement, it is relevant to the proper application of the requirements of an AU-C section."

This discussion is provided for informational purposes only. It is not a summary of or substitute for Auditing Standard No. 17 itself. This comparison may not represent the views of the ASB regarding its standard.

Conditions in Order to Opine on Supplemental Information

PCAOB

Auditing Standard No. 17 does not include conditions in order to opine on supplemental information. Such conditions are not considered necessary in the standard because the supplemental information covered by Auditing Standard No. 17 is generally required by the SEC or other regulatory bodies.

ASB

AU-C Section 725 states that, in order to opine on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, the auditor should determine that: (a) the supplementary information was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements; (b) the supplementary information relates to the same period as the financial statements; and (c) the auditor issued an audit report on the financial statements that contained neither an adverse opinion nor a disclaimer of opinion. Although Auditing Standard No. 17 does not contain such explicit conditions, the scope of Auditing Standard No. 17 is similar to AU-C Section 725 in that both standards apply only when the auditor of the financial statements is engaged to perform audit procedures and report on supplemental information accompanying audited financial statements.

AU-C Section 725 also 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. Auditing Standard No. 17 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. Rather, rules of the SEC and other regulatory agencies specify the requirements for filing or furnishing supplemental information, and whether that supplemental information is to be made publically available.

Performing Audit Procedures on Supplemental Information Accompanying Audited Financial Statements

PCAOB

Paragraph 4 of Auditing Standard No. 17 requires 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, evaluate the appropriateness of those methods, 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, as applicable;

- Perform procedures to test the completeness and accuracy of the information presented in the supplemental information to the extent that it was not tested as part of the audit of financial statements; and
- Evaluate whether the supplemental information, including its form and content, complies with relevant regulatory requirements or other applicable criteria, if any.

Additionally, a note to paragraph 3.b. of Auditing Standard No. 17 includes a requirement that when planning and performing the audit procedures to report on supplemental information, the auditor generally should use the same materiality considerations as those used in planning and performing the audit of the financial statements. Additionally, that note further states that if applicable regulatory requirements specify a lower materiality level to be applied to certain supplemental information, the auditor should use those prescribed threshold requirements in planning and performing audit procedures for the supplemental information.

ASB

AU-C Section 725 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.

AU-C Section 725 specifically 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, such as 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 complies with the applicable criteria.

Paragraph 4.a. of Auditing Standard No. 17 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.

AU-C Section 725 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.

Paragraph 4.b. of Auditing Standard No. 17 includes requirements that the auditor obtain an understanding of the methods of preparing the supplemental information, evaluate the appropriateness of those methods, 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. This last requirement can be important in determining whether the form and content of the information complies with relevant regulatory requirements.

AU-C Section 725 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. Paragraph 4.d. of Auditing Standard No. 17 includes a requirement for the auditor to determine that the supplemental information reconciles to the underlying accounting and other records or to the financial statements rather than only to those records used in preparing the financial statements. Certain schedules may be required by

the SEC or other regulators that are prepared from information not directly used to prepare financial statements.

Management's Representations

PCAOB

Paragraph 5 of Auditing Standard No. 17 includes a requirement for the auditor to obtain from management certain written representations regarding the supplemental information.

ASB

AU-C Section 725 requires the auditor to obtain similar representations from management.

AU-C Section 725 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. Auditing Standard No. 17 does not require the auditor to obtain that representation because rules of the SEC and other regulatory agencies specify the requirements for furnishing supplemental information. Further, Auditing Standard No. 17 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, so a similar requirement in Auditing Standard No. 17 is not appropriate.

Evaluation of Audit Results

PCAOB

Paragraph 6 of Auditing Standard No. 17 includes a requirement that to form an opinion on the supplemental information, 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.

Paragraph 7 of Auditing Standard No. 17 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.

Paragraph 8 of Auditing Standard No. 17 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

AU-C Section 725 requires the auditor to evaluate the appropriateness and completeness of the supplementary information, considering the results of the procedures performed and other knowledge obtained during the audit of the financial statements.

Reporting

PCAOB

Paragraph 10 of Auditing Standard No. 17 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 is the responsibility of management, 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.

Paragraph 10 of Auditing Standard No. 17 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 include a statement that, in forming the auditor's opinion on whether the supplemental information was fairly stated, the auditor evaluated whether supplemental information, including its form and content, complies, in all material respects, with the specified regulatory requirements or other criteria.

Additionally, paragraph 10 of Auditing Standard No. 17 includes a requirement that if the 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

AU-C Section 725 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.

Auditing Standard No. 17 does not include similar language.

D. Request to Apply Auditing Standard No. 17 to Audits of Emerging Growth Companies

In developing Auditing Standard No. 17, the Board sought to develop a new auditing standard that takes into account the SEC's requirements for supplemental information in SEC Rule 17a-5. As part of its process, the Board also considered the SEC's economic analysis for its amendments to SEC Rule 17a-5, which included considerations relating to efficiency, competition, and capital formation. Notably, the SEC's analysis considers the economic effects,

including the costs and benefits, of the required use of PCAOB standards, and discusses the impact of such change on audits of financial statements and supporting schedules that are required by the SEC to be filed by registered brokers and dealers pursuant to SEC Rule 17a-5.⁴⁰

In addition to considering the SEC's requirements and economic analysis, the Board also took into account other related economic considerations, including comments received on the proposed standard, as discussed further below.⁴¹

Economic Baseline

Regulators such as the SEC make the determination regarding whether an entity must file supplemental information and whether auditors are required to report on that information.

To the Board's knowledge, the only entities that are required to file supplemental information to which the standard would apply are (1) brokers and dealers pursuant to SEC Rule 17a-5⁴² and (2) covered 11-K filers.

Accordingly, the Board's consideration of the economic consequences of Auditing Standard No. 17 takes into account how the new standard differs from the pre-existing auditing

⁴⁰ See the SEC Release at 220-226. Notably, after analysis of the views of commenters on the costs of the SEC's proposal to replace GAAS with PCAOB standards with respect to audits of brokers and dealers, the SEC concluded that the Commission "does not expect that a requirement that an audit of financial statements and supporting schedules be conducted in accordance with the standards of the PCAOB instead of with GAAS will result in substantial changes for broker-dealer audit programs and therefore the Commission does not anticipate that this change will result in significant costs to broker-dealers in the form of increased audit fees."

⁴¹ The Board did not specifically request comments that attempted to quantify costs related to the auditing standard, but the Board did request comment on the appropriateness of the standard and received comments that pertained to audit effort and related costs that it considered. The discussion in this section reflects the Board's qualitative assessment of the standard.

⁴² See paragraphs (d)(1)(i)(A) and (d)(2) of SEC Rule 17a-5.

standards applicable to supplemental information required in audits of brokers and dealers and covered 11-K filers.

For brokers and dealers, as discussed previously, the SEC's amendments to Rule 17a-5 require audits of brokers and dealers to be conducted in accordance with PCAOB standards. This includes the examination of the financial report, which consists of the financial statements and supporting schedules. Before the SEC's amendments to Rule 17a-5, audits of brokers and dealers were performed under generally accepted auditing standards ("GAAS"), established by the American Institute of Certified Public Accountants ("AICPA"). Specifically, AU-C Section 725-C, Supplementary Information in Relation to the Financial Statements as a Whole, addressed the auditor's responsibilities when auditors were engaged to report on supplemental information in relation to audited financial statements.

For covered 11-K filers, auditors generally use the reporting language in AU sec. 551 in preparing their auditor's reports on the supplemental information under PCAOB standards.

Both GAAS and AU sec. 551 use an "in relation to" approach to reporting. That is, the auditor's report on the supplemental information generally presents an opinion on whether the supplemental information is fairly stated in all material respects "in relation to" the audited financial statements taken as a whole. When reporting using the "in relation to" approach, the materiality considerations generally are the same as those used in forming an opinion on the basic financial statements taken as a whole.⁴³ However, GAAS includes requirements for audit procedures to be applied to the supplemental information, whereas AU sec. 551 generally does not specify audit procedures.

Consideration of Alternatives of Audit Approach

⁴³ See e.g., AU sec. 551.08, which provides that the "measurement of materiality" under that standard is the same as that used in forming an opinion on the financial statements.

In developing Auditing Standard No. 17, the PCAOB sought to adopt a standard that is tailored to the circumstances under which supplemental information is required in SEC filings of brokers and dealers and covered 11-K filers.

Two principal alternatives were considered in developing the new standard⁴⁴ –

- A stand-alone audit of the supplemental information
- An "in relation to" approach

As adopted, Auditing Standard No. 17 builds on existing auditing standards by retaining the "in relation to" approach for reporting on supplemental information "in relation to" the financial statements as a whole. The PCAOB assessed the alternative, which would have required the supplemental information to be audited on a stand-alone basis. In the Board's view, the stand-alone alternative could require substantial additional audit effort because the materiality considerations would be substantially lower than in an "in relation to" approach.⁴⁵ The Board does not believe that this additional audit effort would enhance the quality of supplemental information significantly over properly performed testing and evaluation under the "in relation to" approach. In the Board's view, the use of the "in relation to" approach – together with the required coordination with the work on the financial statement audit – can accomplish the objectives of the financial statement audit and audit procedures on the supplemental information with more efficient use of resources than the alternative stand-alone approach.

Commenters on the proposed standard generally supported the use of the "in relation to" approach and generally observed that the "in relation to" audit opinion meets the needs of users

⁴⁴ The preceding section discusses the Board's decision to adopt a new standard rather than retain AU sec. 551.

⁴⁵ In a stand-alone audit, the auditor would apply materiality considerations for the supplemental information by itself, which typically would be substantially lower than the materiality level for the financial statements as a whole. See e.g., paragraph .13 of AU sec 623.

in a cost-effective manner. Nothing in the comments received indicates that an "in relation to" opinion on supplemental information is inadequate for users of that information.

Additional Considerations

Auditing Standard No. 17 differs from AU sec. 551 in the following key respects:

- Auditing Standard No. 17 specifies audit procedures to be applied to test supplemental information, while AU sec. 551 generally does not specify audit procedures. Furthermore, those audit procedures include consideration of the regulatory requirements for supplemental information, for example, requirements to evaluate whether the supplemental information complies with the applicable regulatory requirements.
- The new audit procedures are risk-based so that the required level of testing of the supplemental information is commensurate with the risks of material misstatement.
- Auditing Standard No. 17 requires that the audit procedures on the supplemental information be "planned and performed" "in conjunction with" the auditor's work on the financial statement audit and, if applicable, other engagements.

In developing Auditing Standard No. 17, the Board has taken note of observations from its oversight activities regarding the inconsistencies and deficiencies in auditing practices regarding the application of auditing procedures to supplemental information. For example, a 2013 PCAOB inspection report on audits of brokers and dealers, which were performed under GAAS, indicated that PCAOB inspections staff in their inspections of broker and dealer audits identified auditing deficiencies in 57 of 60 audits and that deficiencies in auditing procedures

regarding supporting schedules were among the most frequently noted deficiencies in compliance with audit requirements.⁴⁶

The Board believes that strengthening and clarifying the requirements for supplemental information – and tailoring the required procedures for the supplemental information required by regulatory authorities – will promote consistent auditor performance to support audit reports on supplemental information. Similarly, the risk-based approach set forth in the standard should direct auditors to devote more audit attention to the areas of greatest risk to material misstatement of the supplemental information. The auditor's enhanced focus on the supplemental information should help give regulators greater confidence about the reliability of the supplemental information used in their regulatory oversight, which is important to investor protection. For example, as noted previously, in the context of oversight of brokers and dealers, the audit performance requirements in the standard could improve the quality of supplemental information that regulators rely on when considering whether the broker or dealer maintains adequate safeguards over customer funds and securities.

The Board also has taken into account cost considerations in developing Auditing Standard No. 17. As discussed previously, the use of the "in relation to" approach can accomplish the objectives of the financial statement audit and audit procedures on the supplemental information with more efficient use of resources than the alternative stand-alone

⁴⁶ See Second Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers, PCAOB Release No. 2013-006 (August 19, 2013), which reports that PCAOB inspection staff identified auditing deficiencies in 57 of the 60 audits of brokers and dealers selected for inspection and that deficiencies in compliance with audit requirements for brokers and dealers under the Exchange Act that were among the most frequently noted by PCAOB inspection staff included deficiencies in audit procedures related to net capital and customer reserve supporting schedules, compliance with the conditions of the exemption claimed by the broker or dealer, and the accountant's supplemental report on material inadequacies. See PCAOB Release 2013-006, Executive Summary, at ii.

approach. Also, the risk-based approach helps avoid unnecessary procedures by focusing audit attention on areas of higher risk. Furthermore, the required coordination of the audit procedures on the supplemental information with the audit of the financial statements – and other engagements, when applicable – helps avoid unnecessary duplication of audit procedures. These measures can facilitate the transition to the new standard and help lessen the effects of the associated costs.

Auditing Standard No. 17 has some commonalities with GAAS, for example, the "in relation to" approach and the requirement to apply audit procedures to the supplemental information. This should help facilitate the transition from GAAS to Auditing Standard No. 17 generally and lessen the associated costs for 11-K filers that are audited under both GAAS and PCAOB standards.

The PCAOB acknowledges that the new standard will create some additional compliance costs for affected market participants. These costs include the one-time implementation costs for registered firms to update their audit methodologies to reflect the new standard and train their personnel. However, because, as mentioned above, the new standard builds on concepts in existing standards and has commonalities with GAAS, the PCAOB does not anticipate that changes associated with initial implementation will result in significant costs to auditors (or to brokers and dealers or covered 11-K filers in the form of increased audit fees).

Further compliance costs, which are associated with audit effort, may depend on auditors' existing auditing practices under pre-existing auditing standards and the size and complexity of the entity being audited.

The Board has taken note of the views of commenters on the proposed standard in assessing economic considerations. Some auditors who commented on the Board's proposal

indicated that the procedures required by the proposed auditing standard were similar to their current practices. Comments from other auditors suggested that they did not perform specific procedures to test supplemental information. To the extent that auditors already are testing supplemental information, the PCAOB does not anticipate significant incremental costs associated with compliance with Auditing Standard No. 17. Those incremental costs might be somewhat higher for auditors that have not been performing specific tests of supplemental information.⁴⁷

Auditing Standard No. 17 is designed to be scalable based on an entity's size and complexity. Specifically, the audit effort under the standard likely will be greater for entities that have more supplemental information or more complex supplemental information. For example, audit effort generally would be greater for larger, more complex brokers or dealers that carry securities for customers than for smaller, less complex brokers that neither carry nor clear securities. Similarly, audit effort generally would be greater for larger, more complex covered 11-K filers that have more investments and reportable transactions subject to regulatory reporting requirements.

Applicability to Audits of Emerging Growth Companies

The Board is adopting Auditing Standard No. 17 pursuant to its authority under the Sarbanes-Oxley Act.⁴⁸

⁴⁷ The auditors whose comments suggested that they did not perform specific procedures on supplemental information did not address in their letters their current practices for complying with GAAS, which requires audit procedures for supplemental information. To the extent that those auditors apply audit procedures to supplemental information in audits under GAAS, the Board anticipates that the costs of transitioning to Auditing Standard No. 17 would not be significant.

⁴⁸ Pub. L. No. 107-204, 116 Stat. 745 (2002). Under Section 101 of the Sarbanes-Oxley Act, the mission of the PCAOB is to oversee the audit of companies that are subject to the

Before rules adopted by the Board can take effect, they must be approved by the SEC. Pursuant to Section 107(b)(3) of the Sarbanes-Oxley Act, the SEC shall approve a proposed rule if it finds that the rule is "consistent with the requirements of [the Sarbanes-Oxley] Act and the securities laws, or is necessary or appropriate in the public interest or for the protection of investors."

Additionally, Section 104 of the Jumpstart Our Business Startups Act ("JOBS Act")⁴⁹ amended the Sarbanes-Oxley Act to provide that any additional rules adopted by the PCAOB after April 5, 2012 do not apply to audits of emerging growth companies ("EGCs")⁵⁰ unless the SEC "determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors, and whether the action will promote efficiency, competition, and capital formation."⁵¹

securities laws, and related matters, in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. Section 103 of the Sarbanes-Oxley Act authorizes the Board to adopt auditing standards for use by registered public accounting firms in the preparation and issuance of audit reports "as required by [the] Act or the rules of the Commission, or as may be necessary or appropriate in the public interest or for the protection of investors."

⁴⁹ Pub. L. No. 112-106, 126 Stat. 306 (2012).

⁵⁰ Section 3(a)(80) of the Exchange Act defines the term "emerging growth company." An issuer generally qualifies as an EGC if it has total annual gross revenue of less than \$1 billion during its most recently completed fiscal year (and its first sale of common equity securities pursuant to an effective Securities Act registration statement did not occur on or before December 8, 2011.) See JOBS Act Section 101(a), (b), and (d). Once an issuer is an EGC, it retains its EGC status until the earliest of: (i) the first year after it has total annual gross revenue of \$1 billion or more (as indexed for inflation every five years by the SEC); (ii) the end of the fiscal year after the fifth anniversary of its first sale of common equity securities under an effective Securities Act registration statement; (iii) the date on which the company issues more than \$1 billion in non-convertible debt during the prior three-year period; or (iv) the date on which it is deemed to be a "large accelerated filer" under the Exchange Act (generally, an entity that has been public for at least one year and has an equity float of at least \$700 million).

⁵¹ See Section 103(a)(3)(C) of Sarbanes-Oxley (15 U.S.C. §7213(a)(3)), as added by Section 104 of the JOBS Act, Pub. L. No. 112-106 (April 5, 2012).

The following discussion is intended to provide information that may assist the SEC in any determination it may make regarding whether to apply the new standard to audits of EGCs.

As noted above, Auditing Standard No. 17:

- Strengthens and clarifies the audit requirements regarding supplemental information to promote consistent audit performance and compliance with regulatory requirements, which can enhance the quality of information that is used in regulatory oversight for investor protection and, with respect to covered 11-K filers, increase the quality of information available to investors;
- Helps lessen the effects of the costs associated with the new auditing standard by retaining the "in relation to" approach, setting forth a risk-based approach for the required audit procedures, and requiring coordination with the financial statement audit to avoid redundancy in testing; and
- Is designed to be scalable based on the size and complexity of the entity.

The PCAOB has begun monitoring implementation of the JOBS Act to better understand the characteristics of EGCs and inform the Board's considerations regarding whether it should recommend to the SEC that it apply the new standard and related amendments to audits of EGCs. Based on the PCAOB's research of self-identified EGCs, a substantial majority of EGCs are smaller reporting companies that began reporting under the Exchange Act in 2012 or later.⁵²

Currently, the PCAOB is not aware of EGCs for which auditors would be required to apply this standard. PCAOB staff has performed research on filings of self-identified EGCs. Text

⁵² See Appendix 7 of The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, Reports on Audited Financial Statements, and The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report, and Related Amendments to PCAOB Standards, PCAOB Release No. 2013-005 (August 13, 2013).

searches were used to identify any issuers with audit reports that opine on supplemental information required by Rule 17a-5, and PCAOB staff read the most recent filings of those companies. For those companies for which audited financial statements were available and based on information included in the most recent audited financial statements filed as of May 15, 2013, PCAOB staff has observed that none of the EGCs is a broker or dealer or an 11-K filer. The staff observed one SEC filing containing supplemental information for which an auditor expressed an opinion. Based on the nature of the supplemental information filed, it appears that the issuer included the supplemental information voluntarily rather than pursuant to a requirement specified by rule.

As noted previously, to the Board's knowledge, the only entities that are required to file supplemental information to which Auditing Standard No. 17 will apply are (1) brokers and dealers pursuant to SEC Rule 17a-5 and (2) covered 11-K filers. PCAOB staff has discussed the applicability of the JOBS Act to this rulemaking with the SEC staff. The reporting regimes for registered brokers and dealers under SEC Rule 17a-5 and the reporting regime for employee benefit plans that must comply with financial reporting requirements under both ERISA and the SEC are separate and distinct from those for companies subject to reporting requirements pursuant to Section 13 and 15 of the Exchange Act or for a Securities Act registration statement. The Board defers to the SEC on the applicability of the JOBS Act to this rulemaking for these entities and stands ready to assist the SEC with any additional analysis that may become necessary.

In the event that the standard would be applied to an EGC, the Board has no reason to believe that the economic effects on those EGCs would be different from those described previously for brokers, dealers, and covered 11-K filers. Accordingly, and pursuant to the

foregoing discussions, the PCAOB requests that the Commission, to the extent necessary, determine that it is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation, to apply these amendments to audits of EGCs.

III. Date of Effectiveness of the Proposed Rules and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Board consents, the Commission will:

- (A) by order approve or disapprove such proposed rules; or
- (B) institute proceedings to determine whether the proposed rules should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rules are consistent with the requirements of Title I of the Sarbanes-Oxley Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/pcaob.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number PCAOB-2013-02 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number PCAOB-2013-02. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/pcaob.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rules that are filed with the Commission, and all written communications relating to the proposed rules between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing will also be available for inspection and copying at the principal office of the PCAOB. All comments received will be posted without charge; we do not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. PCAOB-2013-02 and should be submitted on or before [insert 21 days from publication in the Federal Register].

By the Commission.

Elizabeth M. Murphy
Secretary



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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.^{1/} 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^{2/} (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^{3/} to amend its rules to require, among other things, that audits of brokers^{4/} and dealers^{5/} financial statements be performed in accordance with the

^{1/} 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*.

^{2/} Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010).

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

^{4/} 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.

^{5/} 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.^{6/} 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.

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.

^{6/} 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,^{7/} 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.^{8/}

The auditor's standard report includes an opinion on the financial statements.^{9/} 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.^{10/} 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.^{11/}

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:

^{7/} See 17 CFR § 240.17a-5.

^{8/} 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.

^{9/} AU sec. 508, *Reports on Audited Financial Statements*, establishes requirements regarding the auditor's standard report.

^{10/} See AU sec. 551.12.

^{11/} 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.^{12/}

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 or through the Board's Web site at 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.

^{12/} 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.



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* * *

On the 12th 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**^{1/} 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

^{1/} 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.^{2/}

- 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,

^{2/} 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.^{3/} 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.^{4/}

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

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:

^{3/} 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.

^{4/} See paragraph 15 of Auditing Standard No. 14.

^{5/} See paragraph 17 of Auditing Standard No. 14.

^{6/} 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.



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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:



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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:



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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:



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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.^{1/} 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

^{1/} 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.^{2/}

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^{3/} because those schedules are part of the financial statements pursuant to Section 1-01(b) of Regulation S-X,^{4/} 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*.^{5/}

^{2/} 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*.

^{3/} 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.

^{4/} 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."

^{5/} 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;^{6/}
- Is complete and accurate;^{7/} and
- Complies with the relevant regulatory requirements or other applicable criteria, if any.^{8/}

The proposed standard establishes requirements for accumulating misstatements and evaluating uncorrected misstatements that are analogous to those for audits of financial statements.^{9/} 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.

^{6/} See paragraph 4d of the proposed standard.

^{7/} See paragraph 4e of the proposed standard.

^{8/} See paragraph 6 of the proposed standard.

^{9/} 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,^{10/} the auditor may either include the auditor's

^{10/} 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?



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II. Other Matters

Unlike AU sec. 551, the proposed standard does not present separate requirements for reporting on consolidating information^{11/} 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.

^{11/} Consolidated financial statements may include consolidating information or consolidating schedules presenting separate financial statements of one or more components of the consolidated group.



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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").^{1/} This analysis does not cover the application and explanatory material in the ASB standard.^{2/} 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

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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

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

^{2/} 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."



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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

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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



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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

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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.



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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



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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.



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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.



Exhibit 2(a)(B)

**Alphabetical List of Comments on the Rules Proposed in
PCAOB Release No. 2011-005**

1	Chris Barnard
2	BDO USA, LLP
3	Center for Audit Quality; Cindy Fornelli, Executive Director
4	Deloitte & Touche LLP
5	Ernst & Young LLP
6	Experis, Chris Mishler, CMA, CIA, Global Subject Matter Expert – User-Developed Applications
7	Grant Thornton LLP
8	KPMG LLP
9	McGladrey & Pullen, LLP
10	PricewaterhouseCoopers LLP
11	Texas Society of Certified Public Accountants; Kathryn W. Kapka, CPA, CIA, CGAP, Chair, Professional Standards Committee

Please note that the comments expressed herein are solely my personal views

Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803
United States

Chris Barnard
Actuary

15 July 2011

- **Release No. 2011-005**
- **PCAOB Rulemaking Docket Matter No. 036**
- **Proposed Auditing Standard on Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards**

Dear Sir,

Thank you for giving us the opportunity to comment on your Proposed Auditing Standard on Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards. The proposed standard will certainly benefit users of financial statements (users) by establishing the audit procedures and the auditor's responsibilities when the financial statement auditor is also engaged to audit and report on accompanying supplemental information.

In general I support the proposed standard. I have some specific comments, which I will address in answer to your specific questions.

Answers to specific questions raised by the PCAOB

1. The proposed definition of supplemental information is sufficient and complete given the objective outlined in Appendix 1.

Please note that the comments expressed herein are solely my personal views

5. The proposed "in relation to" audit opinion is an appropriate degree of responsibility for supplemental information. Anything stronger would be overburdensome given the nature, content and purpose of supplemental information compared with the audited financial statements.

8. I would suggest that the auditor should consider the complexity of the methodology used to prepare supplemental information, particularly where complex analytical or sampling techniques have been employed in the preparation of underlying data.

9. Appendix 3. I. D. b. requires the auditor to: "Obtain an understanding of the methods of preparing the supplemental information... and, if the methods have changed, determine the reasons for and evaluate the appropriateness of such changes". This requires the auditor to evaluate the "appropriateness" of any changes to methods, but not to evaluate the appropriateness of the methods themselves. I would rather recommend that the auditor should be required to evaluate the appropriateness of the methods of preparing the supplemental information, as well as any changes thereon.

Appendix 3. I. D. c. requires the auditor to: "Inquire of management about any significant assumptions or interpretations underlying the measurement or presentation of the supplemental information". I would suggest here that the auditor should also give an opinion on the appropriateness of such significant assumptions or interpretations, as these could affect whether the supplemental information is reasonable, rather than just "accurate" in the sense of "calculated correctly".

10. The required audit procedures are sufficiently clear. I believe that they could be more appropriate (see my comments under question 9).

11. / 12. Yes.

13. Appendix 3. I. G. e. is very important. I support that the auditor should provide: "An opinion on whether the supplemental information is fairly stated in all material respects, in relation to the financial statements as a whole". This would be sufficient and complete, and would provide meaningful information to users.

Yours faithfully

C.R.B.

Chris Barnard



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100 Park Avenue
New York, NY 10017

September 12, 2011

Via e-mail: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: **PCAOB Release No. 2011-005 Rulemaking Docket Matter No. 036,**
Proposed Auditing Standard, Auditing Supplemental Information Accompanying
Audited Financial Statements and Related Amendments to PCAOB Standards

Dear Members and Staff of the Public Company Accounting Oversight Board:

BDO USA, LLP welcomes this opportunity to comment on the Public Company Accounting and Oversight Board's (the "PCAOB" or the "Board") Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*, (the "Proposed Standard"). We are supportive of the Board's efforts to update and enhance the guidance in circumstances when the auditor of the financial statements is engaged to also 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. However, we have some concerns about the clarity of the nature of the engagement and the scope of work for an "in relation to" opinion that is included in the Proposed Standard, that is beyond what is currently considered appropriate for this type of opinion.

Our observations are set out within the following topical areas:

- Applicability of the Proposed Standard
- "In relation to" the Financial Statements as a Whole
- Required Audit Procedures Applicable to Supplemental Information
- Reporting

Applicability of the Proposed Standard

Overall, we agree with the definition of supplementary information as set out in Appendix A of the Proposed Standard. However, we do not believe the Proposed Standard appropriately addresses the situation where an employee stock purchase, savings or similar plan, which is subject to the Department of Labor's Rules & Regulations for Reporting and Disclosure under ERISA and SEC Form 11-K filing requirements, is required to present prohibited transactions in a supplemental schedule of "Nonexempt Transactions."

Specifically, the Proposed Standard does not address the auditor's responsibility for supplemental information required to accompany the financial statements that arise as a result of procedures performed during the audit (e.g., nonexempt transactions detected as a



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result of applying audit procedures to the financial statements). We recommend specifically addressing the auditor's responsibility and management's representations with respect to such additional supplemental information arising after the auditor has been engaged to perform the financial statement audit. We also recommend that the standard acknowledges instances where regulatory requirements may prescribe a materiality level for such supplemental information that is different from that used in planning and performing the audit of the financial statements as it relates to supplementary information.

"In relation to" the Financial Statements as a Whole

We agree with the Board's decision to retain the "in relation to" concept in the Proposed Standard and believe the level of assurance provided by this type of engagement is appropriate to the circumstance, in that it meets the needs of users in a cost/effective manner. We are concerned, however, that certain wording of the Proposed Standard implies an extension of the scope of the auditor's responsibilities beyond those responsibilities that we believe are actually required to provide such an "in relation to" opinion. For example, in a number of paragraphs within the Proposed Standard, reference is made to the "audit of supplemental information" (see paragraphs 1, 2 and 4) and we do not believe such a reference is appropriate. The use of the word "audit" as it relates to supplementary information, coupled with the addition of certain procedures described below, seems to imply there is a separate audit of the supplemental information, which is inconsistent with an "in relation to" opinion. As such, we suggest revising this language to better convey the objective of an "in relation to opinion."

Required Audit Procedures Applicable to Supplemental Information

We support the addition of the guidance within the Proposed Standard that clarifies the procedures the auditor should perform to obtain appropriate audit evidence that is sufficient to opine on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. However, we believe that certain of the procedures are inconsistent with the objective of an "in relation to" opinion." For example paragraph 3 of the Proposed Standard implies that the auditor would separately consider and document audit planning considerations (e.g. the nature, timing and extent of audit procedures and the risk of material misstatement) relative to the supplemental information. We do not believe that separate planning needs to take place to support the auditor's reporting on supplemental information under the "in relation to" opinion and we recommend revising the guidance to clarify that such separate planning is not necessary.

Further, paragraph 4(e) of the Proposed Standard requires the auditor to "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 the financial statements." This requirement expands the scope of the auditor's responsibility from that described in the extant Interim Standard, AU 551, to information that is not derived from the financial statements. We do not believe such an expansion is appropriate and should not be included within this Proposed Standard.



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Reporting

The Proposed Standard requires the auditor to provide two separate opinions on the supplemental information. The first opinion is the "in relation to" opinion that is consistent with Interim Standard AU 551, and the second is an opinion on whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria. This second opinion is not part of extant AU 551 and we do not believe it is appropriately included within this Proposed Standard. If the Board determines that auditor reporting on whether supplemental information complies with regulatory requirements is necessary, we suggest that the Board consider a separate stand-alone standard to address such reporting.

We appreciate your consideration of our comments and suggestions, and would be pleased to discuss these with you at your convenience. Please direct any questions to Susan Lister, National Director of Auditing at 212-885-8375 (slister@bdo.com).

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP



September 12, 2011

EXECUTIVE DIRECTOR

Cynthia M. Fornelli

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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington D.C. 20006-2803

Re: Request for Public Comment: Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards

Dear Office of the Secretary:

The Center for Audit Quality (“CAQ”) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors’ objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants (“AICPA”).

The CAQ appreciates the opportunity to provide feedback on the Public Company Accounting Oversight Board’s (the “PCAOB” or the “Board”) Rulemaking Docket Matter No. 036, *Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards* (the “Proposed Standard”). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

We are supportive of the PCAOB’s efforts to increase investor transparency into the work performed by auditors on supplemental information accompanying the audited financial statements and to promote coordination between this work and the work performed on the financial statement audit. We agree that the “in relation to” concept best serves these objectives, but we are concerned that the Proposed Standard changes the existing meaning of an “in relation to” opinion and extends the auditor’s responsibilities well beyond those required to provide such an opinion. Accordingly, we do not support the issuance of the Proposed Standard as currently drafted.

We offer several observations to illustrate our concerns and have organized these observations around the following topical areas:

- “In Relation to” Opinion
- Procedures
- Evaluation and Reporting of Audit Results

“In Relation to” Opinion

The auditor’s report on supplemental information is currently covered by the PCAOB’s interim standard AU Section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (“AU 551”), and is based on the concept that the auditor reports on supplemental information in relation to the financial statements as a whole. The “in relation to” framework for this type of reporting is well established and was recently reaffirmed by the AICPA when it issued Statement on Auditing Standards 119 (“SAS 119”), *Supplementary Information in Relation to Financial Statements as a Whole*, to replace AICPA AU Section 551 for private companies.

We agree with the Board’s decision to maintain the “in relation to” concept in the Proposed Standard. We believe that the “in relation to” opinion as it exists in AU 551 provides users of supplemental information with sufficient benefit when compared to the increased cost of a standalone approach and that this form of opinion should be retained.

We are concerned, however, that certain aspects of the Proposed Standard alter the objective of AU 551 and extend the scope of the auditor’s responsibilities beyond those required to provide an “in relation to” opinion. The specific observations we make in this letter are not intended to be all inclusive, but represent, in our view, several significant examples of how the Proposed Standard is inconsistent with an “in relation to” framework.

To illustrate, paragraphs 1 and 2 of the Proposed Standard refer to the auditor being engaged to “audit and report on supplemental information.” In addition, when introducing the procedures to be performed with respect to the supplemental information, paragraph 4 of the Proposed Standard also uses the term “audit of supplemental information.” The insertion of the word “audit,” coupled with the addition of certain procedures described below, implies that there is a separate audit of supplemental information (in addition to the audit of the financial statements), which is inconsistent with the “in relation to” concept in AU 551 (and SAS 119).

If the Board has determined that a higher level of assurance should be required for certain forms of supplemental information, we suggest that the Board consider alternate frameworks for reporting on this information (e.g. AU Section 623, *Special Reports*, (“AU 623”)) rather than change the established meaning of the “in relation to” opinion for all types of supplemental information covered by the Proposed Standard.

Procedures

We support the Board’s decision to articulate in the Proposed Standard the nature of the procedures performed by the auditor when reporting on supplemental information in relation to the financial statements as a whole. We believe that the inclusion of such procedures in the Proposed Standard would benefit investors and other users of supplemental information by describing the auditor’s responsibilities when reporting under the Proposed Standard. However, we believe that certain of these procedures, along with the expanded reporting requirements noted below, are inconsistent with the objective of an “in relation to”

approach and position the auditor's work and reporting on supplemental information as a separate engagement.

Paragraph 3 of the Proposed Standard implies that the auditor would separately consider and document audit planning considerations (e.g., the nature, timing and extent of audit procedures and the risk of material misstatement) relative to the supplemental information. We believe that the procedures performed by the auditor to assess risk and design audit procedures for the financial statement audit are sufficient to support the auditor's reporting on supplemental information under the "in relation to" reporting framework.

Paragraph 4(e) of the Proposed Standard would require the auditor to "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 the financial statements." This requirement significantly expands the scope of the auditor's responsibility under AU 551 with respect to information that is not used to prepare the financial statements. Because the Proposed Standard would require the auditor to perform procedures on supplemental information not used to prepare the financial statements, the requirement for the auditor to obtain assurance on such information is inconsistent with an "in relation to" framework.

Evaluation and Reporting of Audit Results

Paragraph 10(e) of the Proposed Standard would require that the auditor provide both the "in relation to" opinion currently required by AU 551 and an opinion on "whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria."

We believe that it is appropriate for the auditor, when forming an "in relation to" opinion, to consider the form and content of the supplemental information and whether it complies with applicable criteria. However, we are concerned that the Proposed Standard's requirement for the auditor to report on whether the supplemental information complied, in all material respects, with regulatory requirements or criteria exceeds the auditor's responsibility in forming an "in relation to" opinion. AT Section 601 *Compliance Attestation* ("AT 601"), paragraph 3, states that "a report issued in accordance with the provisions of this section does not provide a legal determination of an entity's compliance with specified requirements. However, such a report may be useful to legal counsel or others in making such determinations." The more limited form of auditor reporting on compliance matters illustrated in AT 601 and also in AU 623, paragraphs 19-21, recognizes that the auditor is not an attorney and does not require the auditor to form an overall compliance opinion. In contrast, we believe that paragraph 10(e) of the Proposed Standard could be interpreted as causing an inappropriate increase in the auditor's responsibilities. Accordingly, we suggest that the Board maintain the current reporting requirements of AU 551.

Should the Board require auditors to opine on the form and content of supplemental information, we recommend that the Board permit the auditor to include a sentence in the auditor's report stating that the report does not provide a legal determination as to compliance, similar to the sentence included in reports pursuant to AT 601.

Lastly, we suggest that paragraph 9 of the Proposed Standard be revised to provide greater consistency with AU 551. The Proposed Standard states that "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." In order to provide additional guidance to auditors and retain the "in relation to" concept, we believe the Proposed Standard should include language consistent with paragraph 10 of AU 551 and paragraphs 9(f) and 11 of SAS 119, which specifically address the auditor's reporting on supplemental information if the auditor's report on the financial statements contains a qualified, adverse, or disclaimer of opinion.



* * * * *

We appreciate the opportunity to comment on the PCAOB's Proposed Standard and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations.

Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc:

PCAOB

James R. Doty, Chairman
Lewis H. Ferguson, Board Member
Daniel L. Goelzer, Board Member
Jay D. Hanson, Board Member
Steven B. Harris, Board Member
Martin F. Baumann, Chief Auditor

SEC

Chairman Mary L. Schapiro
Commissioner Luis A. Aguilar
Commissioner Troy A. Paredes
Commissioner Elisse B. Walter
James L. Kroeker, Chief Accountant
Brian Croteau, Deputy Chief Accountant



CENTER FOR AUDIT QUALITY

September 12, 2011

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Request for Public Comment on Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards (PCAOB Release No. 2011-005, July 12, 2011, Rulemaking Docket Matter No. 036)

Deloitte & Touche LLP appreciates the opportunity to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on its *Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards* (the “Proposed Standard”) (PCAOB Release No. 2011-005 (the “Release”), July 12, 2011, Rulemaking Docket Matter No. 036).

Scope of the Engagement and Report Language

We agree with the Board’s decision to retain the “in relation to” language when an auditor is engaged to report on supplemental information. We believe that using such language when reporting on supplemental information appropriately conveys the work effort undertaken by the auditor in arriving at the auditor’s opinion. Despite the Proposed Standard’s use of the same words however, we are concerned that the requirements and guidance in the Proposed Standard actually change the performance requirements for auditors when engaged to report on supplemental information. We believe using commonly recognized reporting terminology to describe a different level of work effort will cause confusion to users of the financial statements and supplemental information, and reports thereon.

“In relation to” reporting is widely used and understood in practice today based on the concepts described in the PCAOB’s interim standard AU 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, as well as Statement on Auditing Standards 119 (“SAS 119”), *Supplementary Information in Relation to Financial Statements as a Whole*, which was issued by the Auditing Standards Board of the American Institute of Certified Public Accountants in 2010. In current practice, when the auditor has been engaged to report on supplemental information in relation to the financial statements as a whole, the auditor uses evidence gained in the audit of the financial statements in addition to performing other procedures that are ordinarily limited to:

- a. Inquiring of management about the purpose of the supplemental information and the criteria used by management to prepare the supplemental information
- b. Determining whether the form and content of the supplemental information complies with the applicable criteria
- c. Obtaining an understanding about the methods of preparing the supplemental information and determining whether the methods of preparing the supplemental information have changed from those used in the prior period and, if the methods have changed, the reasons for such changes

- d. Comparing and reconciling the supplemental information to the underlying accounting and other records used in preparing the financial statements or to the financial statements themselves
- e. Inquiring of management about any significant assumptions or interpretations underlying the measurement or presentation of the supplemental information
- f. Evaluating the appropriateness and completeness of supplemental information, considering the results of procedures performed and other knowledge obtain during the audit of the financial statements
- g. Obtaining written representations from management

We believe that such procedures are appropriate and sufficient for the auditor to express an opinion whether the supplemental information is fairly stated, in all material respects, *in relation to* the financial statements. In this context, it is clear that the materiality refers to the materiality of the financial statements as a whole, and that the auditor's procedures and evaluation of findings are conducted with that materiality in mind.

In contrast, we are concerned that the requirements and guidance in the Proposed Standard significantly expand the scope of the audit procedures required to be performed on the supplemental information beyond what is sufficient and appropriate for an "in relation to" opinion. For example, paragraphs 1 and 2 of the Proposed Standard refer to the auditor being engaged "to *audit and* report on supplemental information." Paragraph 3 of the Proposed Standard requires the auditor to base the nature, timing, and extent of audit procedures on "the materiality of the information presented." These paragraphs therefore seem to infer that the auditor will undertake a second audit, separate and apart from the audit of the financial statements, for which the auditor will plan and perform procedures and report on the supplemental information. If the Board believes such expansion is necessary, we believe the performance of the engagement and reporting thereon would be more appropriately aligned with the requirements and guidance for the conduct of an audit of the supplemental information performed in accordance with the interim standard AU section 623, *Special Reports*.

In addition to the expansion in the performance of procedures, we are concerned that the Proposed Standard also significantly expands the language of the auditor's report through the proposed requirement for two opinions to be expressed on the supplemental information. Paragraph 10(e) of the Proposed Standard describes the two opinions as follows: one opinion on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole, and a second opinion on whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria. We believe the first opinion alone is sufficient. In evaluating whether the supplemental information is fairly stated in all material respects, the auditor would consider the appropriateness of the form and content of the supplemental information if such form and content were prescribed by regulatory requirements or other applicable criteria.

This proposed change would also be incongruous with current reporting on the financial statements (i.e., the auditor does not provide a second opinion related to the form and content of the information in the financial statements when reporting on the audit of the financial statements). As a result, the proposed reporting structure would create a divergence with current practice for reporting related to (1) the financial statement audit and (2) supplemental information. We do not believe such divergence would benefit users of the financial statements and supplemental information. As no explanation for creating such divergence has been provided in the Release, we do not understand the basis for making such a significant change.

The objective of SAS 119 is for the auditor to (a) evaluate the presentation of the supplemental information in relation to the financial statements as a whole and (b) to report on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as

a whole. This objective is met with a single “in relation to” opinion. In addition to the procedures performed during the audit of the financial statements, SAS 119 requires that the auditor perform the procedures described in (a) – (g) above. We agree with the PCAOB’s determination that “in relation to” reporting is an appropriate model for reporting on supplemental information. As we did not find any compelling rationale within the Proposed Standard supporting a change to current practice in the performance or reporting on such engagements, we recommend that the PCAOB align its Proposed Standard with the performance and reporting requirements of SAS 119.

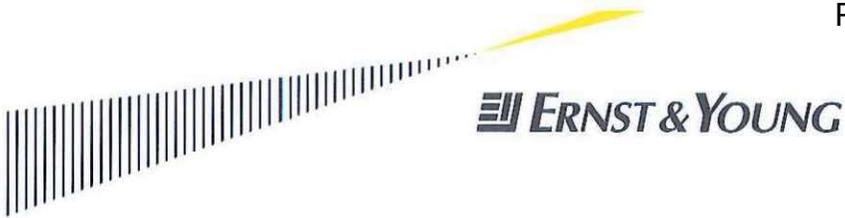
We would welcome an opportunity to further discuss these matters with the Board and the staff. If you have any questions or would like to discuss these matters further, please contact John Fogarty at (203) 761-3227 or Bill Platt at (203) 761- 3755. We thank you for your consideration of these matters.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: James R. Doty, PCAOB Chairman
Lewis H. Ferguson, PCAOB Member
Daniel L. Goelzer, PCAOB Member
Jay D. Hanson, PCAOB Member
Steven B. Harris, PCAOB Member
Martin F. Baumann, Chief Auditor and Director of Professional Standards

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Office of the Secretary
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12 September 2011

Proposed Auditing Standard Related to Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards, PCAOB Rulemaking Docket Matter No. 036

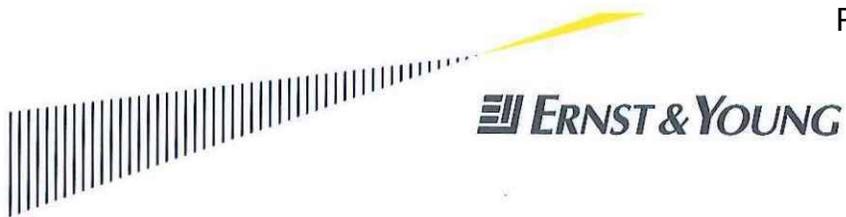
Dear Office of the Secretary:

Ernst & Young LLP (Ernst & Young) is pleased to submit comments on the Public Company Accounting Oversight Board's (PCAOB or the Board) request for comment regarding the above referenced proposed auditing standard (the proposed standard).

We support the Board's effort to update its interim standard, AU section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AU section 551), and we agree that an "in relation to" report is the appropriate level of reporting for supplemental information and will continue to provide the necessary benefits to the users of the financial statements. The "in relation to" reporting model is consistent with AU section 551 and the American Institute of Certified Public Accountants (AIPCA) Statement on Auditing Standards No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (SAS 119).

The Board states on pages 4 and 5 of the release accompanying the proposed standard (the release) that "the proposed standard enhances existing PCAOB standards by requiring the auditor to perform certain audit procedures to test and evaluate the supplemental information." While we acknowledge the Board's intent to enhance the auditing requirements related to supplemental information, we believe some of these enhancements are not consistent with the "in relation to" reporting model that was retained in the proposed standard. If the Board concludes that auditors should perform these additional procedures, we believe they provide a higher level of assurance on the supplementary information than is afforded by the "in relation to" reporting model, and we suggest that the Board consider alternate forms of reporting for these situations.

By extending the auditor's performance responsibilities, but retaining the "in relation to" reporting model, the proposed standard as drafted raises two principal concerns:



- ▶ the procedures required by the proposed standard may, depending on the actual supplemental information being disclosed, be more extensive than the procedures performed over the supplemental information as part of the audit of the financial statements, and
- ▶ the reporting requirements are not consistent with the required audit procedures.

In the remainder of this letter we more fully explain our concerns and suggested modifications and provide other specific comments.

We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff.

Sincerely,

Ernst + Young LLP

Detailed comments**More extensive audit procedures over supplemental information than required for the audit of the financial statements**

Historically, AU section 551 limited the incremental procedures required in an engagement to report on supplemental information to the procedures necessary to opine on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole. Therefore, the planning, risk assessment and design and performance of audit procedures performed as part of the financial statement audit also supported the engagement to report on the supplemental information.

The expanded requirements in certain paragraphs of the proposed standard result in characterizing the engagement to report on supplemental information as a separate audit engagement rather than as a by-product of the audit of the financial statements. For example:

- ▶ Paragraph 3 of the proposed standard implies that the auditor would need to perform audit procedures and prepare separate audit planning documentation related to the engagement to report on supplemental information that would include assessing the risk of material misstatement of the supplemental information and designing the nature, timing and extent of audit procedures necessary to audit the supplemental information.
- ▶ Paragraph 4 of the proposed standard requires the auditor to perform procedures to test the supplemental information to the extent that it was not tested as part of the audit of the financial statements. This expands the auditor's responsibilities to include performing procedures on information that may not have been used in preparing the financial statements.

We believe the expanded procedures and enhancements are not consistent with the "in relation to" reporting model that was retained in the proposed standard. AU section 551 makes it clear that the supplemental information that the auditor is reporting on has been derived from the financial statements or other accounting records used to prepare the financial statements and that the supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements (refer to AU section 551.06d, 551.07 and 551.11). If this is not the case, the auditor is required to disclaim an opinion on the supplemental information (refer to AU section 551.06d and 551.11).

Inconsistency in reporting

We believe the interplay of the more extensive procedures over supplemental information required by the proposed standard with the "in relation to" reporting model raise unique concerns with the proposed reporting requirements. For example:

- ▶ The reporting requirements of paragraph 10c of the proposed standard communicate to users of the auditor's report that the supplemental information being reported on is *not* limited to information used in preparing the financial statements and therefore was subjected to audit procedures other than those audit procedures performed in completing the audit of the financial statements. We believe the reporting requirements of paragraph 10e contradict this notion by requiring the auditor to opine in his or her report as to whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.
- ▶ The proposed auditor's report omits the statement in the current auditing standard (AU section 551.06a) that "the audit has been performed for the purpose of forming an opinion of the basic financial statements taken as a whole." This statement in the auditor's report on supplemental information is an essential element of the "in relation to the financial statements as a whole" notion. By removing this statement, we believe that the proposed auditor's report communicates that the supplemental information was subjected to specific audit procedures, which is inconsistent with "in relation to" reporting.
- ▶ Paragraph 10e of the proposed standard includes requirements for two separate opinions -- one opinion stating that the supplemental information is fairly stated in relation to the financial statements as a whole and a separate opinion on whether the supplemental information complies with regulatory requirements or criteria. In our opinion, these are two separate and distinct reports.

AU section 551 does not specify the procedures to be applied in an engagement to report on supplemental information; therefore, an auditor is not currently required to perform procedures to evaluate the form and content of the supplemental information. While we agree with the proposed requirement for an auditor to evaluate whether the form and content of the supplemental information complies with regulatory requirements or criteria as part of the engagement to report on the supplemental information, we believe requiring the auditor to explicitly report on this significantly expands the auditor's performance requirements for providing assurance on supplemental information. In order to separately report on compliance with regulatory requirements or criteria, we believe auditors will need to develop documentation of their understanding of the regulatory requirements, the procedures performed to evaluate compliance, and the conclusions reached, which go well beyond the requirements of AU section 551, as well as SAS 119.

We believe that this second opinion is both unnecessary and inconsistent with the "in relation to" opinion and we do not believe it is appropriate to report on "compliance with regulatory requirements or criteria" within a report on whether the supplemental information is fairly stated in relation to the financial statements as a whole.

Other comments

- ▶ We suggest that the Board consider expanding paragraph 9 of the proposed standard to provide additional guidance on how the effect of any modification to the audit report on the financial statements would affect the evaluation of whether the supplemental information is fairly stated. We note that page A3-9 of the release provides an example of the effect of a qualification to the auditor's report on the financial statements because of a material departure from GAAP on the auditor's report on supplemental information; however, this guidance is not included in the proposed standard.

In order to provide additional guidance to auditors and retain the "in relation to" concept, we believe that the proposed standard should include language consistent with AU section 551.10 and SAS 119 paragraphs 9f and 11, which specifically address the auditor's reporting on supplemental information if the auditor's report on the financial statements contains a qualified, adverse, or disclaimer of opinion.

- ▶ We believe that the definitions provided in Appendix A, paragraphs A2a and A2b are clear. However, we note that paragraph A2c of Appendix A defines supplemental information as:

- 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.

We believe it would be helpful for the Board to provide examples of what type of supplemental information included in SEC filings not otherwise required to be presented by the SEC or another relevant regulatory body would be included in the scope of the proposed standard.

- ▶ We suggest that the Board make the following changes to Appendix 2, *Proposed Amendments to PCAOB Standards*, to clarify that the proposed standard is only relevant when the auditor is engaged to audit and report on supplemental information that accompanies audited financial statements.

Amendment to section AU section 552:

The auditor's responsibility regarding supplemental information accompanying audited financial statements, when the auditor is engaged to audit and report on the supplemental information, is discussed in Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*.

Amendments to AU section 558 (a and b):

The auditor's responsibility regarding supplemental information accompanying audited financial statements, when the auditor is engaged to audit and report on the supplemental information, is discussed in Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*.

From: Mishler, Christopher [mailto:christopher.mishler@experis.com]
Sent: Tuesday, August 09, 2011 2:24 PM
To: Comments
Subject: PCAOB Rulemaking Docket Matter No. 036

Given the known predisposition of financial spreadsheets toward error ("91 percent of audited spreadsheets contained at least a 5 percent error in a bottom-line value" ¹), it would be advisable to specify that not only should the accuracy of supplemental information be confirmed and the numbers reconciled to the underlying accounting records, but the control practices and environment surrounding the files should also be considered and tested. PriceWaterhouseCoopers presented a seminal white paper in 2004 on ten essential controls every high risk or key financial spreadsheet should have, but these do not go far enough in interrogating the integrity and the degree of design best practices in the given files. At Experis, our "User-Developed Applications Risk Advisory Services" thought leadership team has developed a "Controls Checklist" gleaned from experience with some of the world's largest corporations' spreadsheet applications, which we use in lieu of sometimes absent Spreadsheet Control Policies at a client.

This checklist is implemented in conjunction with a "Remedial Roadmap" to assist in bringing offending spreadsheets into compliance with at least best practice controls. As part of the roadmap, we provide a maturity model as follows:

CORPORATE CONTROL POLICY COMPLIANCE	RISK REDUCTION & CONTROL		SUSTAINABILITY
	RISK CONTROL	RISK CONTROL METHOD	
Compliant in <5 Controls	Low	Not in place	Initial - file logic and mechanics are fully dependent on Application Owner (AO) knowledge for accurate completion, no modular approach, and no documentation.
Compliant in <10 Controls	Low	Fully manual	Defined - as above, but with documentation of logic and assumptions.
Compliant in <15 Controls	Medium	Partially manual	Repeatable - although not fully compliant with corporate policy, less dependent on AO knowledge for accurate completion, may contain partially identified modular approach elements.
Compliant in all Controls	Medium	Partially automated	Managed , corporate compliant, totally modular application development, promotes efficiency, and effective risk reduction through full workbook automation, flexible structure accommodates future reporting (e.g.) changes - within reason.
Sustainable Compliance enabled	High	Fully Automated	Optimizing - as above, sustainability demonstrated through repeated use / extensive parallel run testing. AO regards as 'Business As Usual'.

We have had clients who engaged our firm to identify high risk spreadsheets, risk rank them, interrogate them, and remedy the weaknesses, as well as create a corporate spreadsheet control policy and

sustainability practices, only to have them back off after noticing that their external auditors never asked about their controls over and within high risk financial files. Is this the direction we want to go and which promotes the accuracy and completeness of supplemental financial statement information, as well as the standard statements themselves? Instead, the risk of both fraud and misstatements can be reduced by examining the structural design and, using automated spreadsheet interrogation software, conduct a cell-by-cell review of the formulas and links within the target files. There is excellent software available and proven techniques and providers to conduct this kind of necessary review.

Thank you for improving auditing standards.

Christopher Mishler

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¹*What We Know About Spreadsheet Errors*. Raymond R. Panko, Published in the
Journal of End User Computing's
Special issue on Scaling Up End User Development
Volume 10, No 2. Spring 1998, pp. 15-21
Revised May 2008

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September 12, 2011

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Re: PCAOB Rulemaking Docket Matter No. 36, *Proposed Auditing Standard, Auditing Supplemental Information Accompanying Audited Financial Statements, and Related Amendments to PCAOB Standards*

Dear Board Members and Staff:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) proposed auditing standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*, and related amendments, and we respectfully submit our comments and recommendations thereon.

We agree with the types of supplemental information covered by the proposed standard. Nevertheless, we have specific observations below for the Board's consideration related to supplemental information not filed with the U.S. Securities and Exchange Commission (SEC or Commission), as well as schedules filed with the Commission pursuant to SEC Regulation S-X, Article 12.

In addition, we believe that the introduction of the proposed standard should clearly indicate that the opinion on supplemental information is *in relation to* the financial statements and is performed in conjunction with the financial statement audit. As currently proposed, there may be a misperception that the audit of supplemental information is a standalone audit engagement with separate risk assessments and materiality considerations. We have provided certain other recommendations herein, particularly relating to the required audit procedures, that we believe also will assist with further clarifying this matter.

Further, with respect to information that is voluntarily presented as supplemental information (paragraph A2c) whereby the auditor does not wish to, or is unable to, report in accordance with the proposed standard, a reference to the applicability of AU sec. 550, *Other Information in Documents Containing Audited Financial Statements*, may be helpful in clarifying the auditor's responsibility in those circumstances. To provide additional differentiation between supplemental information and other information, we believe that the definition of supplemental information in paragraph A2c could be modified to more clearly indicate that such information is subjected to audit procedures performed in conjunction with the financial statement audit.

Supplemental information not filed with the SEC

Through the definition of supplemental information, the proposed standard is limited to supplemental information included in an SEC filing. From a PCAOB standard-setting perspective, this seems appropriate. We note, however, that several federal agencies are establishing and updating compliance requirements related to for-profit entities, which could be issuers, receiving federal awards, such as those received through the American Recovery and Reinvestment Act of 2009. In some cases, information related to these federal awards is presented as supplemental information to the financial statements and are reported on by the auditor using an in relation to form of opinion. Such information would ordinarily not be filed with the SEC, and therefore, neither PCAOB standards nor the standards established by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) would seem to clearly apply. We believe that there may be two possible approaches to address this matter: indicating that the proposed PCAOB standard could be adapted and applied in these circumstances, or discussing with the ASB the possibility of utilizing AICPA standards to report on such supplemental information, even though the underlying financial statement audit was performed in accordance with PCAOB standards. We support the former approach because the use of PCAOB standards would seem more appropriate and may be less confusing to users. However, the Board should note that adaptation of PCAOB standards may be necessary because this type of supplemental information may be prepared and reported upon subsequent to the financial statement audit, in which case the audit procedures may not be planned and performed in conjunction therewith.

Schedules presented pursuant to SEC Regulation S-X

The release indicates that the proposed standard does not apply to schedules prepared pursuant to SEC Regulation S-X because such schedules are part of the financial statements. We question whether this statement is accurate in all cases. Regulation S-X specifically states: “The schedules shall be examined by the independent accountant if the related financial statements are so examined.” The SEC staff guidance has also indicated that the financial statement audit report should refer to any schedules required by Article 12 or that a separate report accompanying the schedules may be used. Further, Regulation S-X schedules may be filed subsequent to the financial statement filing. All of these points are an indication that the information contained in these schedules may be supplementary and not part of the basic financial statements covered by the auditor’s standard opinion, unless of course the information is contained within the financial statement footnotes. We also note that there is some diversity in practice with regard to reporting on these schedules, and in some respects, the separate opinion that may be expressed on these schedules may be construed as an in relation to opinion. In theory, there should be no practical difference in the audit procedures that should be performed between Regulation S-X schedules that are not part of the basic financial statements and the supplemental information covered by the proposed standard; both are subjected to auditing procedures based on financial statement materiality and both are opined on separately from the financial statements. If the final standard will not apply to these schedules, the PCAOB staff may need to provide additional guidance as to the appropriate form of opinion on the schedules in order to achieve more consistent reporting between audit firms and to further clarify the difference between the opinion on the schedules, if separate from the financial statement opinion, and the opinion on supplemental information.

Essentially, if the schedules are deemed part of the financial statements, only one opinion on the fair presentation of the financial statements and schedules in accordance with the applicable financial reporting framework would seem to be appropriate. However, the Board would need to consider the feasibility of this form of reporting in situations where an issuer separately files the required schedules subsequent to the filing of the annual financial statements.

In relation to the financial statements as a whole

We support retaining the in relation to opinion because, as noted in the release, supplemental information accompanies audited financial statements and provides ancillary information derived from the accounting books and records. Also, the proposed standard will be applied more broadly than supplemental information provided by brokers and dealers. We believe that it is the Commission's or other regulatory body's primary responsibility to prescribe the form of reporting, such as the use of an in relation to opinion or a more standalone approach, depending on the type of information to be presented. A standalone approach would likely be covered by the requirements of AU sec. 623, *Special Reports*. Accordingly, a separate PCAOB standard supporting the in relation to opinion, such as that proposed, seems necessary.

With respect to supplemental information of brokers and dealers, we also believe that an in relation to opinion would be more appropriate than a standalone approach. However, as we indicated in our letter dated August 26, 2011 to the SEC on their proposed amendments to the broker-dealer financial reporting rule under the Securities Exchange Act of 1934, we believe that there will be some overlap, which could cause potential confusion, between the opinion on a broker-dealer's supplemental schedules, as proposed, and the opinion on compliance under the proposed examination engagement. Under the PCAOB's proposal, the supplemental schedules that brokers-dealers are required to file pursuant to Exchange Act Rule 17a-5 are expected to be audited in relation to the financial statements using financial statement materiality. An opinion will be expressed thereon, which would include compliance with form and content in accordance with such rule. Simultaneously, under the SEC's proposal, a separate examination report will be issued also expressing an opinion on compliance with certain of the same rules; for this engagement, however, material non-compliance is determined at the compliance requirement level. As such, we suggested that the SEC discuss this matter with the PCAOB, particularly the form of opinion on the supplemental schedules, to consider a form of reporting that could potentially eliminate any overlap and misunderstanding. Refer to our separate comments herein related to reporting on form and content.

The Board also seeks comments as to whether there are circumstances in which an auditor cannot provide an opinion on supplemental information in relation to the financial statements. We have noted two situations for consideration. First, the auditor may not be able to express an in relation to opinion on non-accounting information or accounting information not directly related to the financial statements or subjected to the related auditing procedures. In this regard, we believe that the extant guidance in paragraph .11 of AU sec. 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, should be carried forward. Second, we believe that the auditor should not be permitted to express an unqualified in relation to opinion when the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements because the unqualified in relation to opinion

could be misleading and inappropriate, akin to a piecemeal opinion on the financial statements. Although we recognize that this would be a rare circumstance, particularly for issuers, we believe it should be addressed by the Board's standard.

Materiality

We agree with the proposed requirement related to materiality; that is, using the same consideration of materiality for supplementary information as that used in planning and performing the financial statement audit. This approach is consistent with the approach historically understood and taken by auditors. Accordingly, we do not see a need to address materiality considerations for specific types of supplemental information, particularly in consideration of the inclusion, within the proposed standard, of the audit procedures the auditor is expected to perform to report on such information.

However, the evaluation required by paragraph 9 and the form of opinion required by paragraph 10e, along with the illustrative example provided in paragraph 13, of the proposed standard imply the use of a different materiality level in regards to compliance with form and content with the applicable regulatory requirements or criteria. Although this may not be what was originally intended, we believe additional clarification is warranted. Refer to our separate comments herein related to reporting on form and content.

Required audit procedures

Overall, we agree with the proposed audit procedures and believe that they are sufficient and appropriate. It might be helpful, however, to more clearly link the requirements to obtain sufficient appropriate audit evidence in paragraph 3 with the specific audit procedures in paragraph 4, as well as the financial statement audit procedures. By this we mean that the audit procedures in paragraph 4, in addition to the financial statement audit procedures that subject the supplemental information to testing, are those necessary to obtain sufficient appropriate audit evidence to support the auditor's opinion on the supplemental information. The nature, timing, and extent of the audit procedures in paragraph 4 are driven by the considerations in paragraph 3, while both risk assessments and materiality are driven by the financial statement audit rather than a separate and distinct risk assessment process. Any additional procedures that are needed to obtain sufficient appropriate audit evidence are covered by the requirement in paragraph 4e related to completeness and accuracy, whereby the auditor could consider any additional risks of misstatement. This requirement, on its own, may imply a greater level of assurance. We believe that such clarifications are necessary to eliminate the inference of a standalone audit engagement of the supplemental information, which is inconsistent with the notion of an in relation to form of reporting.

With regard to the required audit procedures, we also suggest rewording paragraph 4f to require the auditor to *evaluate whether the supplemental information, including its form and content, was prepared in accordance with the relevant regulatory requirements or other applicable or acceptable criteria*. In light of our other comments herein, we believe that this requirement better reflects the auditor's responsibilities.

Management representations

We support the requirement, in paragraph 5 of the proposed standard, for the auditor to obtain written representations from management concerning the supplemental information. However, because we believe that management must prepare and present the supplemental information in accordance with some form of criteria, whether based on a regulatory requirement or other applicable or acceptable criteria, we believe that the representations in paragraphs 5a, 5b, and 5d require clarification with respect to management's basis of presentation. In this regard, and in consideration of our other comments relating to form and content, we also believe that the representations in paragraphs 5b and 5d need to be combined, while further eliminating the reference to materiality consistent with the financial statement audit representations. Hence, we propose the following alternative representations to replace those in paragraphs 5a, 5b, and 5d:

- A statement that management acknowledges its responsibility for the fair presentation of the supplemental information, including its form and content, in accordance with the regulatory requirements or other applicable or acceptable criteria, and an identification of those requirements or criteria.
- A statement that management believes the supplemental information, including its form and content, is fairly presented in accordance with the regulatory requirements or other applicable or acceptable criteria.

Evaluation of audit results and reporting, including form and content

We generally support the requirements for evaluating the audit results, as well as the elements of the auditor's report. However, in consideration of our comments on materiality and management's representations, we believe that these requirements necessitate some clarification and revision in regards to the basis of presentation and the form of opinion as it relates to form and content. As previously indicated, we believe that the supplemental information would need to be prepared and presented in accordance with some form of criteria and that the proposed standard seems to imply a different materiality level in regards to whether the form and content of such information complied in accordance therewith.

We agree with requiring the auditor to evaluate form and content. We also agree with the statement in the release that indicates that the proposed standard requires this evaluation because it is important to the auditor's evaluation as to whether the supplemental information is fairly stated. Accordingly, we believe that the PCAOB intends that the evaluation of form and content is one element of forming an opinion on the supplemental information in relation to the financial statements, rather than a separate and distinct evaluation requiring the need to obtain a greater level of assurance. To alleviate any potential confusion and to clarify the auditor's responsibility, we believe that the evaluation required by paragraph 6 and the form of opinion required in paragraph 10e, including the illustrative report example in paragraph 13, could be modified by using a construct that is similar to our proposed revisions related to management's representations. For example, we believe that the auditor's opinion may be worded as follows:

In our opinion, the supplemental information is fairly stated (or presented), in all material respects in relation to the financial statements as a whole, in accordance with the relevant regulatory requirements or other applicable or acceptable criteria.

We view an opinion as to fair presentation in the context of the criteria with which the supplemental information is prepared and presented. Also, reference to form and content is not necessary because fair presentation in accordance with specified criteria encompasses form and content. Further, the above form of opinion could eliminate any potential misunderstanding related to an opinion on compliance and its overlap with the examination report, as described previously.

We further suggest the following:

- Modifying paragraph 6 so that the evaluation of audit results is in the context of the auditor's responsibility to form an opinion on the supplemental information. This will assist with differentiating the requirement from that described in paragraph 4f.
- Including a reference to AU sec. 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, in the note to paragraph 8. This guidance may be necessary in situations in which the date of the auditor's report on supplemental information is subsequent to the date of the auditor's report on the financial statements.
- Modifying paragraph 9 to more clearly address the auditor's responsibility when an adverse or disclaimer of opinion was expressed on the financial statements. As we previously indicated, we believe the auditor should be prohibited from expressing an in relation to opinion on the supplemental information in this circumstance.
- Clarifying the applicability of paragraph 10f in regards to different bases of presentation. First, we believe that this form of reporting would only seem relevant to those situations in which supplemental information is included in an SEC filing, but is not otherwise required by the rules and regulations of the SEC or another regulatory body (paragraph A2c). It would help to clarify this point. However, in this circumstance, we would simply expect management to disclose the basis of presentation. Therefore, indicating that the basis of presentation differs from that used to prepare the financial statements may not be necessary, particularly if the form of opinion on the supplemental information references the basis of presentation disclosed by management.

Proposed amendments

In regards to the proposed amendments, we believe that paragraph .05 of AU sec. 558, *Required Supplementary Information*, may require additional revision because the differentiation between *client-prepared* and *auditor-submitted* is no longer relevant. This same observation applies to AU sec. 9342, *Auditing Accounting Estimates: Auditing Interpretations of AU Section 342*.

We would be pleased to discuss our letter with you. If you have any questions, please contact Karin A. French, National Managing Partner of Professional Standards, at (312) 602-9160.

Sincerely,





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September 12, 2011

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PCAOB Rulemaking Docket Matter No. 36

Proposed Auditing Standard - Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards

Dear Mr. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2011-005, "*Proposed Auditing Standard - Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards*," that includes the proposed standard "*Auditing Supplemental Information Accompanying Audited Financial Statements*" (the Release).

We support the Board's objectives reflected in the proposed standard to enhance the auditing and reporting requirements for supplemental information accompanying audited financial statements required to be submitted to the Securities and Exchange Commission (the SEC). However, we have a number of concerns that we believe the Board should consider prior to issuing a final standard. Our comments are organized as follows:

- Application of the "In Relation To" Concept to the Proposed Required Audit Procedures and Evaluation of the Audit Results
- Applicability of the Proposed Standard and Definition of Supplemental Information
- Reporting

Application of the "In Relation To" Concept to the Proposed Required Audit Procedures and Evaluation of Audit Results

We agree with the Board's decision to retain the existing "in relation to" the financial statements as a whole language in the auditor's report. However, we are concerned that certain aspects of the proposed standard place additional responsibilities on registered public accounting firms that are contrary to the "in relation to" concept.



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Paragraphs 1 and 2 of the proposed standard refer to the auditor being engaged to “audit and report on supplemental information.” Paragraph 4 of the proposed standard describes the procedures to be performed “in the audit of supplemental information.” The insertion of the word “audit” in these examples implies that there is a separate audit of supplemental information, in addition to the audit of the financial statements, which is inconsistent with the “in relation to” concept.

Paragraphs 4d and 4e of the proposed standard require the auditor to “determine that the supplemental information reconciles to the underlying accounting *and other records*” and “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 the financial statements*,” respectively. These requirements expand the scope of the auditor’s existing responsibility under PCAOB’s Standards and Related Rules AU Section 551, “*Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*” (AU 551) with respect to information that was not derived from the underlying accounting records. Information not derived from the underlying accounting records, by its nature, is not subject to internal control over financial reporting and likely would not have been subjected to the auditor’s procedures in the audit of the financial statements. We believe that these proposed requirements are contradictory to the “in relation to” approach. We suggest that the Board maintain the “in relation to” approach and maintain the existing requirements of AU 551 to allow registered public accounting firms to apply judgment in the design of its procedures required to comply with the proposed standard. Alternatively, the Board could clarify the nature, timing, and extent of procedures it expects for information not derived from the underlying accounting records.

Paragraph 4f of the proposed standard states that “the auditor should evaluate whether the form and content of the supplemental information comply with the relevant regulatory requirements or other applicable criteria, if any.” Paragraph 10 of the proposed standard goes further to say “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.” While we believe it is necessary for the registered public accounting firm to consider the form and content of the supplemental information and whether it complies with applicable criteria, we do not believe it should be the registered public accounting firm’s responsibility to report on whether the supplemental information complied, in all material respects, with regulatory requirements or criteria. This is consistent with requirements in PCAOB’s Standards and Related Rules AT Section 601 “*Compliance Attestation*” (AT 601), which states that “a report issued in accordance with the provisions of this section does not provide a legal determination of an entity’s compliance with specified requirements. However,



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such a report may be useful to legal counsel or others in making such determinations.” We believe that the proposed standard would require a registered public accounting firm to make such a legal determination. This enhanced reporting requirement could be construed as elevating the registered public accounting firm’s responsibilities to that of an attorney. We recommend that the Board omit this proposed addition to the auditor’s reporting. Should the Board determine to retain this aspect of the auditor’s reporting, we recommend that the Board permit the auditor to include a sentence in the auditor’s report stating that the report does not provide a legal determination as to compliance, similar to the sentence included in reports pursuant to AT 601.

The example auditor’s report on supplemental information included in the proposed standard states that “the [identify supplemental information] is fairly stated, in all material respects, in relation to the financial statements as a whole, *and accordingly [emphasis added]*, its form and content comply, in all material respects, with the relevant regulatory requirements.” Notwithstanding our comment on whether it is appropriate for the auditor to opine on whether the form and content of the information complies with the relevant regulatory requirements, we question the use of the word “accordingly” in the sentence in the example auditor’s report. We do not believe that the form and content statement is dependent on the statement with regard to whether the information is fairly stated in relation to the financial statements. Therefore, if the Board retains the statement with regard to form and content, the Board should delete the word “accordingly.”

Applicability of the Proposed Standard and Definition of Supplemental Information

The proposed standard includes a definition of supplemental information when it accompanies audited financial statements. We believe the definition of supplemental information and the related discussion included in the Release do not sufficiently describe the type of information addressed by the proposed standard. For example, it is not clear whether supplemental information included in annual reports of employee stock purchase, savings and similar plans filed on Form 11-K would be included within the scope of the proposed standard. Additional uncertainty with regard to scope is introduced in footnote 5 of Appendix 3 of the Release with the reference to “audits of investment companies that file with the SEC” as being specifically excluded from the definition of supplemental information, but does not include discussion regarding the exclusion of other schedules required by SEC Regulation S-X for commercial companies that appear to not be within the scope of the proposed standard. We believe the definition of supplemental information should be further clarified, perhaps by including additional examples and/or exclusions.



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Reporting

Appendix 3 to the Release provides that “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.” The proposed standard, however, does not discuss the consideration of internal control over compliance or the implications of material weaknesses over compliance to other aspects of the financial statement audit of the broker or dealer. It would be helpful if the Board would further explain the reasons the Board included this statement in the Release.

Paragraph 9 of the proposed standard states that 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,” but does not give any further guidance in evaluating the reporting consequences for supplemental information in these circumstances. AU 551 specifically addresses the auditor’s reporting requirements on supplemental information if the auditor’s report on the financial statements contains an adverse opinion or disclaims an opinion. We suggest that the Board provide clear guidance to registered public accounting firms, while furthering the Board’s objective of maintaining the “in relation to” concept, to address the reporting requirements for supplemental information when modifications have been made to the audit report on the financial statements.

The proposed standard does not include a requirement for the following statements to be included in the auditor’s report on supplemental information which are included in AU 551:

- A statement that the audit has been performed for the purpose of forming an opinion on the basic financial statements taken a whole, and
- A statement that the supplementary information is the responsibility of management.

We believe, given the Board’s intent to maintain the “in relation to” approach to auditing and reporting on supplemental information in relation to the financial statements taken as a whole, that the Board should include these requirements in the reporting requirements, or clarify the Board’s rationale for excluding these requirements.

The proposed standard includes an example of an auditor’s opinion on supplemental information when included in the auditor’s report on the financial statements, but does not include an example opinion when the auditor issues a separate report on the supplemental information. We believe the Board should consider including an example separate report in the final standard.



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* * * * *

We appreciate the Board's careful consideration of our comments. If you have any questions regarding our comments or other information included in this letter, please do not hesitate to contact Sam Ranzilla, (212) 909-5837, sranzilla@kpmg.com, or Tom Ray, (212) 909-5095, tray@kpmg.com.

Very truly yours,

KPMG LLP

cc:

PCAOB

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September 12, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 36

McGladrey & Pullen, LLP appreciates the opportunity to offer our comments on the PCAOB's *Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards*. Our comments are organized by those that are general in nature, followed by those that relate to specific paragraphs.

General Comments

We agree that it is important for the Board's standards to describe not only the reporting requirements, but also the procedural requirements, for supplemental information accompanying audited financial statements. We also agree that the proposed standard for auditing supplemental information accompanying audited financial statements should retain the existing concept of expressing an opinion on the supplemental information "in relation to" the financial statements as a whole stated in AU Section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*. We are concerned, however, that certain language and procedures proposed in the standard are inconsistent with the objective of an "in relation to" approach. Such aspects of the proposed standard change the existing meaning of an "in relation to" opinion and extend the auditor's responsibilities beyond those required to provide such an opinion. Some examples of how the proposed standard is inconsistent with the "in relation to" concept in AU Section 551 are discussed in our comments on specific paragraphs of the proposed standard below.

Comments on Specific Paragraphs

1. "Audit of Supplemental Information" Language

Paragraphs 1 and 2 of the proposed standard both state that the auditor is engaged to "audit and report on supplemental information that accompanies audited financial statements." This phrase implies that there is a separate audit of supplemental information in addition to the audit of the financial statements, which is inconsistent with the "in relation to" concept in AU Section 551. Similarly, use of the term "audit of supplemental information" in the introductory clause of paragraph 4 could have the same implications.

2. Audit Procedures on Supplemental Information

Paragraph 3 implies that the auditor would separately consider the nature, timing, and extent of audit procedures and the risk of material misstatement to report on the supplemental information. We believe the procedures performed by the auditor to assess risk and design audit procedures for the financial statement audit would be sufficient to support the auditor's report on the supplemental information under the "in relation to" concept in AU Section 551.

Paragraph 4(e) would require the auditor to 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. This requirement extends the auditor's responsibilities to performing procedures on supplemental information that is not derived from the financial statements. This approach is inconsistent with the "in relation to" concept in AU Section 551.

3. Reporting

To more fully represent the "in relation to" concept and to provide additional guidance for auditors, we believe paragraph 9 of the proposed standard should be expanded to specifically address the auditor's reporting on supplemental information if the auditor's report on the financial statements contains a qualified, adverse, or disclaimer of opinion.

If the form and content of the supplemental information is prescribed by regulatory requirements or other applicable criteria, paragraph 10(e) of the proposed standard would require the auditor to provide a second separate opinion on whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria. Although we believe it is appropriate for the auditor when forming an "in relation to" opinion to consider the form and content of the supplemental information and whether it complies with applicable criteria, the requirement for a second opinion exceeds the auditor's responsibility. In addition, the requirements in paragraph 10(e) could be construed to provide a legal determination of whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria, which would not be appropriate.

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to Bob Dohrer, National Director of Assurance Services, at 919-645-6819.

Sincerely,

A handwritten signature in cursive script that reads "McGladrey & Pullen, LLP".

McGladrey & Pullen, LLP



Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

12 September 2011

RE: PCAOB Rulemaking Docket Matter No. 036, *Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards*

Dear Sir:

We appreciate the opportunity to respond to the Public Company Accounting Oversight Board's (the "Board") *Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards* (the "proposed standard" or "proposal").

Overall, we support the proposed standard and believe it will provide a consistent framework for work performed by the auditor on supplemental information. Additionally, we support the Board's effort to strengthen the coordination of the auditor's work on supplemental information with the work performed in connection with the financial statement audit, where appropriate. However, we believe that further consideration of the following areas will improve the proposed standard. In the remainder of our letter, we have organized our observations into the following topical areas:

- Evaluation and reporting of audit results
- Definition of supplemental information

Evaluation and reporting of audit results

Paragraph 10(e) of the proposed standard requires the auditor's opinion to address "...whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria," where applicable. We believe this requirement inappropriately goes beyond the auditor's objective, as stated in paragraph 2 of the proposed standard, "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." In addition, we believe this requirement is inconsistent with the following statements included in the proposal:

- Appendix 3, page 7 states, "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'* (italics added)."



- Appendix 3, page 8 states "In the context of supplemental information, the phrase '*fairly stated*' (italics added), 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;
 - Is complete and accurate;
 - Complies with the relevant regulatory requirements or other applicable criteria, if any."
- Paragraph 4(f) of 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" as part of the audit of supplemental information, and such work is performed in reaching the conclusion that the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Consistent with the above, we believe it is appropriate for the auditor to consider the form and content of the supplemental information and whether it complies with the relevant regulatory requirements or other applicable criteria, if any, for purposes of determining whether the supplemental information "is fairly stated, in all material respects, in relation to the financial statements taken as a whole." However, we are concerned that the separate opinion discussed in paragraph 10(e) that states, "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" goes beyond an "in relation to" opinion and is, in fact, more consistent with the opinion expressed in an examination engagement performed in accordance with AT 601, *Compliance Attestation*. Considering the procedure required in paragraph 4(f), it is also unclear what additional procedures the Board would consider are necessary in order to report on compliance with the relevant regulatory requirements or other applicable criteria separately.

We also suggest that paragraph 9 of the proposed standard be revised to include guidance from paragraph 10 of extant AU 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*. Specifically, although such situations might be uncommon, we believe it would promote consistency in reporting to explicitly state that when the auditor has issued an adverse opinion or disclaims an opinion on the basic financial statements, he should not express an opinion on the supplemental information. Likewise, the proposed standard should include the discussion in Appendix 3, page 9 that states "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 would require qualification." Finally, illustrations of other reporting situations would promote consistency in reporting.

Definition of supplemental information

We note that the proposed standard defines supplemental information only as information accompanying audited financial statements filed with the SEC. We are aware of situations when public companies issue supplemental information outside of the SEC filing. For example, a company may reissue its financial statements filed with the SEC and include consolidating information, subsidiary-specific information, or information used to calculate financial ratios as supplemental information to satisfy a bank or other contractual agreement or a requirement or request of a state or other regulator. In some cases, the need for the supplemental information does not exist, or the company is unaware of it, when the financial statements are issued (for example, a requirement is triggered when the company files an application to



conduct certain business in a state, or the supplemental information is agreed to satisfy a regulator request). Since the company is a public company, the audit of the financial statements is conducted in accordance with PCAOB standards; therefore, the audit of the supplemental information would typically be conducted in accordance with PCAOB standards. The aforementioned examples would not meet the proposed definition of supplemental information, however, and since AU 551 would be superseded when the proposal is adopted, it appears that none of the Board's standards would cover these situations. We do not believe this was the intent of the Board; therefore, we recommend that the Board clarify the definition of supplemental information so that in situations when the supplemental information is not filed with the SEC, the proposed standard is still applicable.

In addition, where the "in relation to" report on supplemental information is issued after the initial issuance of the financial statements, particularly to the extent where the requirement for the supplemental information does not exist or is unknown to the company at the time of the issuance of the financial statements, there are various places in the standard that the current language might not be applicable or appropriate. For example:

- The note to paragraph 3(c) states "The procedures performed regarding the supplemental information should be planned and performed in conjunction with the audit of the financial statements." The Board should consider clarifying that this should occur when the auditor is aware of the supplemental information at the time the audit of the financial statements is planned and performed.
- Paragraph 10(b) requires the auditor's report to include "A statement that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements." The Board should consider clarifying that this language should be included in the report when the auditor is aware of the supplemental information and performed procedures concurrent with the audit of the financial statements.
- The illustrative report in paragraph 13 includes the statement "Our procedures also included evaluating the form and content of the [supplemental information.]" Notwithstanding our observation above regarding this separate conclusion, the Board should consider clarifying that certain supplemental information may not be subject to a prescribed "form and content".

* * * * *

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact Brian R. Richson (973-236-5615) or Marc A. Panucci (973-236-4885) regarding our submission.

Sincerely,

Marc A. Panucci



September 1, 2011

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: Proposed Auditing Standard: *Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards*

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the TSCPA. The PSC has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the PSC membership. The views expressed in this letter have not been approved by the TSCPA's Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

In our discussion of the above referenced exposure draft (ED), we considered each of the 14 questions posed by the PCAOB in Appendix 3. Our response to each question is indicated below.

Question 1: Does the definition of supplemental information in the proposed standard sufficiently describe the type of information covered by this standard?

We found the definition of supplemental information to be an acceptable characterization of the data that would be considered supplemental information in a vast majority of financial reporting situations.

Question 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?

The comprehensive nature of the definition of supplemental information found in the proposed standard adequately characterizes what we believe constitutes the concept of supplemental information in the financial reporting arena.

Question 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?

The issuance of a standard that focuses on Auditing Supplemental Information will obviously elevate the auditor's responsibility to provide a higher level of assurance with respect to such information. This increased responsibility will cause the auditor to expand his or her understanding of the risks related to the supplemental information, as well as the controls surrounding its preparation and presentation. We

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as auditors often wonder if the resulting level of assurance required by a standard is equal to the expectations held by those using the attestation report. Auditors apply an effort designed to meet the requirements of a standard and attempt to provide users with reasonable assurance. However, those users often apply a more absolute level of assurance that is difficult, if not impossible, to meet. We recognize the difficulty in gauging the gap between auditor representation and user interpretation. However, we must be mindful that the greatest challenge we face in setting standards is to clearly communicate the reasonableness of an expectation as it relates to the representation.

Question 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?

We believe further guidance in this area would be redundant since supplemental schedules required by Regulation S-X are currently considered an integral component of the financial statement package. The auditor's responsibility regarding schedules required by SEC Regulation S-X has been defined in the Regulation. The auditor's acknowledgement of that responsibility occurs when he or she performs the audit in accordance with generally accepted auditing standards. We are not aware of any other practical implications that the Board should consider.

Question 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?

The "in relation to" audit opinion represents an appropriate degree of responsibility for supplemental information as it applies to the public interest and the protection of investors and customers of brokers and dealers. To move beyond the "in relation to" audit opinion would elevate the effort of the auditor to a level that would not pass the cost/benefit test. As the name implies, this information is *supplemental* and should not be elevated to a level of significance that seems to serve no useful purpose.

Question 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?

We are aware of numerous circumstances (scope limitations, data integrity, uncertainties, etc.) that could prohibit an auditor from issuing an opinion on supplemental information. However, we believe general audit guidance would require the auditor to explain the reason for the inability to provide the opinion and disclaim any responsibility for the supplemental information. The problem with this question is the breadth of the circumstances that could cause such a problem and the fact that some general guidance would be quite difficult to develop. This issue again relates to the cost/benefit that would result from such an effort.

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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?

Materiality is a matter of professional judgment on the part of the auditor. The proposed standard includes the following regarding the auditor's application of materiality related to supplemental information: "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." We believe that there are probably different materiality considerations that may arise regarding individual audits, as well as different types of supplemental information. To identify all such possibilities would be impossible. Thus, we suggest the Board merely reiterate that materiality is a matter of auditor judgment and that judgment may have to be altered in situations where different materiality considerations are required for certain types of supplemental information.

Question 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?

The required audit procedures applicable to supplemental information included in the proposed standard appear to reflect a sufficient array of procedures to adequately test supplemental information. However, we do believe that consultation with legal counsel or other experts may be necessary if non-accounting interpretations or disclosures are needed in the schedules.

Question 9: Are there additional audit procedures that the proposed standard should require, for example, to address particular types of supplemental information?

We do not believe that additional audit procedures should be required. Also, to try to identify the particular types of supplemental information where certain procedures should be performed would lead to unnecessary controversy regarding the reasons for singling out certain types of supplemental information.

Question 10: Are the required audit procedures sufficiently clear and appropriate?

The procedures appear to be sufficiently clear and appropriate.

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?

We believe the representations found in the proposed standard are clear and appropriate, and we have no suggestions for any additional representations that should be obtained from management.

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

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September 1, 2011
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We believe the four requirements for evaluating audit results, as presented in the proposed standard, provide an adequate basis for evaluating the audit results in relation to the financial statements.

Question 13: Do the required elements of the auditor's report clearly communicate the auditor's responsibilities for the supplemental information?

The auditor's responsibilities are clearly communicated in the auditor's report.

Question 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?

We have no suggestions for changes in the form or content of the report and we do not believe there should be any additions made to the auditor's representations.

We appreciate the opportunity to provide input into the standard-setting process.

Sincerely,



Kathryn W. Kapka, CPA, CIA, CGAP
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants



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AUDITING STANDARD No. 17)	PCAOB Release No. 2013-008
)	October 10, 2013
AUDITING SUPPLEMENTAL INFORMATION)	
ACCOMPANYING AUDITED FINANCIAL)	PCAOB Rulemaking
STATEMENTS)	Docket Matter No. 036
)	
AND RELATED AMENDMENTS TO PCAOB)	
STANDARDS)	
)	
)	
)	

Summary: After public comment, the Public Company Accounting Oversight Board ("PCAOB" or the "Board") is adopting Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*, which will supersede the Board's auditing standard, AU sec. 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*. The Board is also adopting related amendments to certain PCAOB auditing standards.

Board
 Contacts: Keith Wilson, Deputy Chief Auditor (202/207-9134, wilsonk@pcaobus.org), Barbara Vanich, Associate Chief Auditor (202/207-9363, vanichb@pcaobus.org), and Nicholas Grillo, Assistant Chief Auditor (202/207-9104, grillon@pcaobus.org).

I. Introduction

The Board is adopting Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements* (the "standard"). The standard sets forth the auditor's responsibilities when the auditor of the financial statements is engaged to perform audit procedures 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. The standard supersedes AU sec. 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*. The Board also is amending certain other related PCAOB auditing standards.



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Supplemental information is often in the form of schedules accompanying the financial statements. The Board's existing standard, AU sec. 551, describes the auditor's reporting responsibilities regarding supplemental information accompanying audited financial statements in auditor-submitted documents and does not specify the audit procedures to be applied to test supplemental information. In contrast, Auditing Standard No. 17 contains audit procedures that are designed to support the auditor's reporting requirements, including procedures to test the supplemental information accompanying the financial statements.

Briefly, the standard requires auditors to perform certain audit procedures when engaged to audit and report on supplemental information accompanying financial statements. Supplemental information is required by regulators, including the Securities and Exchange Commission ("SEC" or "Commission"),^{1/} who have determined the information is important in carrying out their regulatory oversight. The standard includes auditor performance requirements to (1) determine that the supplemental information reconciles to the underlying accounting and other records or to the financial statements, as applicable; (2) test the completeness and accuracy of the supplemental information, to the extent that it was not tested as part of the audit of the financial statements; and (3) evaluate whether the supplemental information, including its form and content, complies with relevant regulatory requirements or other applicable criteria, if any. The standard has been designed to promote coordination between the work performed on the supplemental information and the work performed on the financial statement audit. This approach should enhance audit effectiveness as well as avoid duplication of audit procedures.

In the Board's view, Auditing Standard No. 17 should provide regulators with greater confidence in the quality and consistency of supplemental information

^{1/} Rule 17a-5 under the Securities Exchange Act of 1934 ("Exchange Act") requires brokers and dealers registered with the SEC to submit financial reports to the SEC that include audited financial statements as well as certain required supporting schedules ("SEC Rule 17a-5"). See 17 C.F.R. § 240.17a-5. On July 30, 2013, the SEC adopted amendments to SEC Rule 17a-5 to strengthen and clarify broker and dealer financial reporting requirements and also require that broker and dealer audits be conducted in accordance with PCAOB standards. See SEC Exchange Act Release No. 34-70073, *Broker-Dealer Reports* (July 30, 2013), 78 Federal Register 51910 (August 21, 2013) ("SEC Release").



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accompanying audited financial statements of brokers^{2/}, dealers^{3/}, and others.^{4/} Supplemental information is often required by regulators for their oversight purposes. For example, the supplemental information brokers and dealers are required to include in their annual reports relates to their compliance with certain SEC rules regarding maintaining minimum net capital and reserves,^{5/} specifically those governing the safeguarding of customer securities and funds in their filings with the Commission. Also, supplemental information includes schedules included in annual reports filed by employee stock purchase, savings, and similar plans on Form 11-K ("11-K filers"), *For Annual Reports Of Employee Stock Purchase, Savings and Similar Plans Pursuant To Section 15(D) Of The Securities Exchange Act Of 1934*,^{6/} when those entities elect to

^{2/} 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.

^{3/} 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 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.

^{4/} For example, certain employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974 ("ERISA") file an annual report with the Commission on Form 11-K, which includes the plan's financial statements and schedules prepared in accordance with the financial reporting requirements of ERISA. See 17 C.F.R. § 240.15d-21, 17 C.F.R. § 249.311 and item 4 of the "Required Information" section of SEC Form 11-K "For Annual Reports Of Employee Stock Purchase, Savings And Similar Plans Pursuant To Section 15(D) Of The Securities Exchange Act Of 1934."

^{5/} See paragraph (d)(2) of SEC Rule 17a-5.

^{6/} See 29 C.F.R. § 2520.103-1.



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file plan financial statements and schedules prepared in accordance with the financial reporting requirements of the Employee Retirement Income Security Act of 1974.^{7/}

II. Background

On July 12, 2011, the Board proposed a new standard, *Auditing Supplemental Information Accompanying Audited Financial Statements* (the "proposed standard"), to improve the quality of audit procedures performed and related reports on supplemental information, including supplemental information that is included in SEC filings.

The Board received eleven comment letters on the proposed standard. Most commenters were supportive of the Board's effort to improve the auditing standards in this area. Also, comments were provided on certain requirements or other specific aspects of the proposed standard. For example, a number of comments related to the specific wording of the opinion the auditor would express regarding the supplemental information. While commenters generally supported the Board's efforts to retain the "in relation to" opinion from AU sec. 551, some commenters stated that some of the language in the proposed standard implied that the auditor was required to perform a stand-alone audit of the supplemental information. Some commenters also stated that the required language in the auditor's report, in effect, expressed two opinions – one on whether the supplemental information was fairly stated and a second on whether the form and content of the information presented complied with applicable regulatory requirements.

The Board made certain revisions to the standard to address these issues raised by commenters. For example, revisions were made to the language of the standard to clarify that the auditor is required to perform certain procedures regarding the supplemental information rather than a stand-alone audit of that information. Also, the reporting requirements were revised to clarify that the evaluation of compliance with regulatory requirements is a required part of forming an opinion on whether the supplemental information is fairly stated.

^{7/} See 17 C.F.R. § 240.15d-21, 17 C.F.R. § 249.311, and item 4 of the "Required Information" section of SEC Form 11-K "For Annual Reports Of Employee Stock Purchase, Savings And Similar Plans Pursuant To Section 15(D) Of The Securities Exchange Act Of 1934."



RELEASE

Additionally, some commenters stated that the definition of "supplemental information" in the proposed standard was too restrictive and did not encompass some types of supplemental information that currently are reported on by auditors of issuers. Accordingly, the definition in the standard has been revised to take into account those other types of supplemental information by removing the references to SEC filings. However, by its terms, Auditing Standard No. 17 applies only to situations in which an auditor is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to PCAOB standards. The standard does not, by itself, impose an obligation to audit such supplemental information. Rather, such obligations for auditor reporting on supplemental information generally are based on the rules of regulatory agencies requiring supplemental information, such as SEC Rule 17a-5.^{8/} Also, the standard does 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 of the supplemental information should look to the requirements in AU sec. 623, *Special Reports*.

Appendix 3 discusses comments received on the proposed standard in greater detail.

III. Considerations in Adopting Auditing Standard No. 17

A number of developments led the Board to re-examine its requirements regarding supplemental information. Primarily, Section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act^{9/} (the "Dodd-Frank Act") gave the Board oversight of audits of brokers and dealers registered with the SEC. Under SEC Rule 17a-5, brokers and dealers are required to submit to the SEC financial reports containing certain schedules, including supporting schedules regarding (i) the computation of net capital; (ii) the computation for determination of reserve

^{8/} ERISA Section 103(a)(3)(A) requires a plan administrator to engage an independent auditor to conduct an examination of the plan's financial statements and required schedules in accordance with generally accepted auditing standards (GAAS). See 29 C.F.R. § 2520.103-1. An employee benefit plan that has a reporting obligation under Section 15(d) of the Exchange Act also must file its annual report on Form 11-K with the Commission and engage an auditor to conduct an examination of the plan's financial statements and schedules under PCAOB standards.

^{9/} Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010).



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requirements; and (iii) information related to the broker's or dealer's possession or control of its clients' assets.^{10/} These schedules provide important information that can support and assist the Commission and other broker or dealer "designated examining authorities"^{11/} in their oversight of financial responsibility practices of brokers and dealers. In addition, as described in the SEC's release, one of the SEC's motivations for its amendments to SEC Rule 17a-5 to require that audits of brokers and dealers – including the examination of the financial statements and supplemental schedules in the financial report – be conducted in accordance with PCAOB standards was to "better ensure alignment between broker-dealer audits and the regulatory policy objectives reflected in the Commission's financial responsibility rules."^{12/}

On July 30, 2013, the Commission adopted amendments to SEC Rule 17a-5 to require, among other things, that an auditor engaged by the broker or dealer provide an audit report based on an auditor's examination of the broker's or dealer's financial report, which consists of the financial statements and supporting schedules, in accordance with the standards of the PCAOB.^{13/} However, the PCAOB's existing audit standards do not contemplate the SEC's requirements for an auditor's report on the examination of the financial statements and supporting schedules of a broker or dealer. As noted earlier, the Board's existing standard, AU sec. 551, describes the auditor's reporting responsibilities regarding supplemental information accompanying audited financial statements in terms of *auditor-submitted* documents and, additionally, does not specify audit procedures to be applied to test the supplemental information that is provided to the regulator. Accordingly, the Board decided to adopt Auditing Standard

^{10/} See paragraph (d)(2) of SEC Rule 17a-5.

^{11/} Under SEC Rule 17d-1, *Examination for Compliance with Applicable Financial Responsibility Rules*, a registered broker or dealer that is a member of more than one securities self-regulatory organization may be assigned a "designated examining authority" or "DEA" that is responsible for examining the broker or dealer for compliance with SEC financial responsibility rules. An example of a securities self-regulatory organization that is a DEA is the Financial Industry Regulatory Authority.

^{12/} See the SEC Release at 208.

^{13/} See paragraphs (f)(1) and (g)(1) of SEC Rule 17a-5. See also paragraph (d)(1)(i)(C) of SEC Rule 17a-5, which requires that the auditor's report on the examination of the financial report of the broker or dealer be filed with the Commission.



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No. 17 and align its standard for performing auditing procedures and reporting on supplemental information with the SEC's requirements. Due to the importance of the required supplemental information for regulatory purposes, the Board also determined to include audit procedures designed to support the auditor's reporting requirements, including procedures for testing the supplemental information accompanying the financial statements.

Additionally, the amendments to SEC Rule 17a-5 also require certain brokers and dealers to include in their annual reports a compliance report that addresses, among other things, the broker's or dealer's compliance with the SEC rules requiring a broker or dealer to maintain a minimum level of net capital and a reserve of funds or qualified securities in an amount at least equal to the value of the amount of net funds owed to customers of the respective broker or dealer.^{14/} In conjunction with these recent amendments, the Board also is adopting new standards for attestation engagements (the "attestation standards") that relate to brokers' and dealers' compliance reports required in SEC Rule 17a-5.^{15/} The requirements in the attestation standards are closely related to the audit requirements in this standard regarding supporting schedules for brokers and dealers. Among other things, the attestation standards emphasize the importance of coordinating the work in the compliance attestation engagement with the audit of the financial statements and audit procedures performed on the schedules required under SEC Rule 17a-5.^{16/}

In addition to the schedules required by SEC Rule 17a-5, Auditing Standard No. 17 covers supplemental information required to be presented pursuant to the rules and regulations of a regulatory authority when that information is reported on in relation to financial statements that are audited in accordance with PCAOB standards. For example, Auditing Standard No. 17 covers the schedules in Form 11-K of an 11-K filer

^{14/} See paragraphs (f)(1), (g)(2)(i) and (ii) of SEC Rule 17a-5. The net capital rule is 17 C.F.R. § 240.15c3-1, and the reserve requirements rule is paragraph (e) of 17 C.F.R. § 240.15c3-3.

^{15/} See *Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards*, PCAOB Release No. 2013-007 (October 10, 2013).

^{16/} Id.



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that elects to file plan financial statements and schedules prepared in accordance with the financial reporting requirements of ERISA ("covered 11-K filer").^{17/}

In the Board's view, Auditing Standard No. 17 promotes investor protection because of the importance of supplemental information in meeting regulatory objectives regarding audits of financial statements of brokers, dealers, and others. Because such information is often critical to the effectiveness of regulatory oversight, Auditing Standard No. 17 requires the performance of audit procedures to test the supplemental information to support the auditor's report on the supplemental information. The standard also requires the auditor to evaluate whether the supplemental information complies with applicable regulatory requirements, which should help facilitate consistent compliance with regulatory requirements and give regulators greater confidence about the reliability of the supplemental information provided for regulatory oversight activities that are important to investor protection.

For example, in the context of oversight of brokers and dealers, the requirements in the standard for testing and evaluating supplemental information could improve the quality of the supporting schedules that regulators rely on when considering whether the broker or dealer maintains adequate safeguards over customer funds and securities. Also, strengthening and clarifying the auditing requirements for applying procedures and reporting on supplemental information could facilitate consistent compliance with SEC Rule 17a-5.

For 11-K filers, the requirements in the standard for testing and evaluating supplemental information may increase the quality of information available to investors, especially the plans' participants.

Auditing Standard No. 17 also requires the auditor to coordinate the auditor's work with the financial statement audit. To the extent that the supplemental information relates to information in the financial statements, the enhanced audit attention to the supplemental information could enhance the confidence of regulators and other users in the reliability of the financial statements and supplemental information.

^{17/} The new standard would not apply to 11-K filers that do not make that election because the SEC-required schedules for those 11-K filers are part of the audited financial statements.



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IV. Overview of Auditing Standard No. 17

Auditing Standard No. 17 is being adopted by the Board substantially as proposed. However, certain revisions have been made by the Board to address issues raised by commenters. The following discussion provides a high-level overview of the standard. Appendix 3 provides a more detailed discussion of the standard, significant comments received, and changes made.

Scope of the Standard. The standard applies when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to PCAOB standards.^{18/} Such supplemental information includes:

- Supporting schedules that brokers and dealers are required to file pursuant to SEC Rule 17a-5;^{19/}
- Supplemental information (i) required to be presented pursuant to the rules and regulations of a regulatory authority and (ii) covered by an independent public accountant's report on that information in relation to financial statements that are audited in accordance with PCAOB standards; or
- Information that is (i) ancillary to the audited financial statements, (ii) derived from the company's accounting books and records, and (iii) covered by an independent public accountant's report on that information in relation to the financial statements that are audited in accordance with PCAOB standards.

Thus, the standard covers supplemental information required by regulatory authorities and supplemental information that is voluntarily provided, when the auditor is engaged to report on that information in relation to the financial statements as a whole and the financial statements are audited in accordance with PCAOB standards.

^{18/} Similar to AU sec. 551, the standard does not apply to unaudited supplementary information, such as the information required by Item 302 of Regulation S-K, 17 C.F.R. § 229.302.

^{19/} See paragraph (d)(2) of SEC Rule 17a-5.



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"In Relation To" Opinion. Historically, when auditors reported on supplemental information, they often expressed their opinions on the supplemental information "in relation to" the basic financial statements taken as a whole.^{20/} Audit procedures regarding that supplemental information generally have been performed in conjunction with the audit of the financial statements. The auditor's report on supplemental information under AU sec. 551 is rooted in the concept that the supplemental information is fairly presented "in relation to" the financial statements as a whole. The standard retains the existing "in relation to" language in the auditor's report; however, it also updates the report to describe the auditor's responsibilities for the supplemental information.^{21/}

Performance and Reporting Requirements. The standard establishes procedural and reporting responsibilities for the auditor regarding supplemental information accompanying financial statements. The standard establishes:

- Requirements that the auditor perform audit procedures to test the supplemental information;
- Requirements that the auditor evaluate the supplemental information, which include evaluating (1) 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, and (2) whether the supplemental information is presented in conformity, in all material respects, with the relevant regulatory requirements or other applicable criteria;
- Requirements that promote enhanced coordination between the work performed on the supplemental information with work performed on the financial statement audit and, if applicable, other engagements, such as a compliance attestation engagement for brokers and dealers; and
- Reporting requirements that clearly articulate the auditor's responsibilities when reporting on supplemental information.

^{20/} See AU sec. 551.12.

^{21/} Appendix 3 discusses the auditor's "in relation to" opinion in more detail.



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The standard will not apply to schedules prepared pursuant to Regulation S-X, 17 C.F.R. § 210 because those schedules are deemed by SEC rule to be part of the financial statements.^{22/}

V. Economic Considerations, including for Audits of Emerging Growth Companies

A. Economic Considerations

This release, and the related appendices, provide additional detail regarding the background and need for the new standard, Auditing Standard No. 17; significant comments received and alternatives considered; and key differences between the new standard and AU sec. 551. As discussed below, the Board also considered the economic consequences of Auditing Standard No. 17.

At the outset, the Board's objective was to determine that it had an auditing standard appropriate for reporting on the supplemental information required by SEC Rule 17a-5. The Board determined that it was necessary to develop a new auditing standard for supplemental information because the Board's existing standard, AU sec. 551, applies to supplemental information in auditor-submitted documents and does not establish requirements for performing procedures to support the opinion to be expressed on the supplemental information, including procedures for evaluating compliance with corresponding regulatory requirements, if any.

In developing Auditing Standard No. 17, the Board sought to develop a new auditing standard that takes into account the SEC's requirements for supplemental information in SEC Rule 17a-5. As part of its process, the Board also considered the SEC's economic analysis for its amendments to SEC Rule 17a-5, which included considerations relating to efficiency, competition, and capital formation. Notably, the SEC's analysis considers the economic effects, including the costs and benefits, of the required use of PCAOB standards, and discusses the impact of such change on audits

^{22/} See Section 1-01(b) of Regulation S-X, 17 C.F.R. § 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.



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of financial statements and supporting schedules that are required by the SEC to be filed by registered brokers and dealers pursuant to SEC Rule 17a-5.^{23/}

In addition to considering the SEC's requirements and economic analysis, the Board also took into account other related economic considerations, including comments received on the proposed standard, as discussed further below.^{24/}

1. *Economic Baseline*

Regulators such as the SEC make the determination regarding whether an entity must file supplemental information and whether auditors are required to report on that information.

To the Board's knowledge, the only entities that are required to file supplemental information to which the standard would apply are (1) brokers and dealers pursuant to SEC Rule 17a-5^{25/} and (2) covered 11-K filers.

Accordingly, the Board's consideration of the economic consequences of Auditing Standard No. 17 takes into account how the new standard differs from the pre-existing auditing standards applicable to supplemental information required in audits of brokers and dealers and covered 11-K filers.

^{23/} See the SEC Release at 220-226. Notably, after analysis of the views of commenters on the costs of the SEC's proposal to replace GAAS with PCAOB standards with respect to audits of brokers and dealers, the SEC concluded that the Commission "does not expect that a requirement that an audit of financial statements and supporting schedules be conducted in accordance with the standards of the PCAOB instead of with GAAS will result in substantial changes for broker-dealer audit programs and therefore the Commission does not anticipate that this change will result in significant costs to broker-dealers in the form of increased audit fees."

^{24/} The Board did not specifically request comments that attempted to quantify costs related to the auditing standard, but the Board did request comment on the appropriateness of the standard and received comments that pertained to audit effort and related costs that it considered. The discussion in this section reflects the Board's qualitative assessment of the standard.

^{25/} See paragraphs (d)(1)(i)(A) and (d)(2) of SEC Rule 17a-5.



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For brokers and dealers, as discussed previously, the SEC's amendments to Rule 17a-5 require audits of brokers and dealers to be conducted in accordance with PCAOB standards. This includes the examination of the financial report, which consists of the financial statements and supporting schedules. Before the SEC's amendments to Rule 17a-5, audits of brokers and dealers were performed under generally accepted auditing standards ("GAAS"), established by the American Institute of Certified Public Accountants ("AICPA"). Specifically, AU-C Section 725-C, *Supplementary Information in Relation to the Financial Statements as a Whole*, addressed the auditor's responsibilities when auditors were engaged to report on supplemental information in relation to audited financial statements.

For covered 11-K filers, auditors generally use the reporting language in AU sec. 551 in preparing their auditor's reports on the supplemental information under PCAOB standards.

Both GAAS and AU sec. 551 use an "in relation to" approach to reporting. That is, the auditor's report on the supplemental information generally presents an opinion on whether the supplemental information is fairly stated in all material respects "in relation to" the audited financial statements taken as a whole. When reporting using the "in relation to" approach, the materiality considerations generally are the same as those used in forming an opinion on the basic financial statements taken as a whole.^{26/} However, GAAS includes requirements for audit procedures to be applied to the supplemental information, whereas AU sec. 551 generally does not specify audit procedures.

2. *Consideration of Alternatives of Audit Approach*

In developing Auditing Standard No. 17, the PCAOB sought to adopt a standard that is tailored to the circumstances under which supplemental information is required in SEC filings of brokers and dealers and covered 11-K filers.

^{26/} See e.g., AU sec. 551.08, which provides that the "measurement of materiality" under that standard is the same as that used in forming an opinion on the financial statements.



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Two principal alternatives were considered in developing the new standard^{27/} –

- A stand-alone audit of the supplemental information
- An "in relation to" approach

As adopted, Auditing Standard No. 17 builds on existing auditing standards by retaining the "in relation to" approach for reporting on supplemental information "in relation to" the financial statements as a whole. The PCAOB assessed the alternative, which would have required the supplemental information to be audited on a stand-alone basis. In the Board's view, the stand-alone alternative could require substantial additional audit effort because the materiality considerations would be substantially lower than in an "in relation to" approach.^{28/} The Board does not believe that this additional audit effort would enhance the quality of supplemental information significantly over properly performed testing and evaluation under the "in relation to" approach. In the Board's view, the use of the "in relation to" approach – together with the required coordination with the work on the financial statement audit – can accomplish the objectives of the financial statement audit and audit procedures on the supplemental information with more efficient use of resources than the alternative stand-alone approach.

Commenters on the proposed standard generally supported the use of the "in relation to" approach and generally observed that the "in relation to" audit opinion meets the needs of users in a cost-effective manner. Nothing in the comments received indicates that an "in relation to" opinion on supplemental information is inadequate for users of that information.

^{27/} The preceding section discusses the Board's decision to adopt a new standard rather than retain AU sec. 551.

^{28/} In a stand-alone audit, the auditor would apply materiality considerations for the supplemental information by itself, which typically would be substantially lower than the materiality level for the financial statements as a whole. See e.g., paragraph .13 of AU sec 623.



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3. *Additional Considerations*

As discussed in more detail in Appendix 3, Auditing Standard No. 17 differs from AU sec. 551 in the following key respects:

- Auditing Standard No. 17 specifies audit procedures to be applied to test supplemental information, while AU sec. 551 generally does not specify audit procedures. Furthermore, those audit procedures include consideration of the regulatory requirements for supplemental information, for example, requirements to evaluate whether the supplemental information complies with the applicable regulatory requirements.
- The new audit procedures are risk-based so that the required level of testing of the supplemental information is commensurate with the risks of material misstatement.
- Auditing Standard No. 17 requires that the audit procedures on the supplemental information be "planned and performed" "in conjunction with" the auditor's work on the financial statement audit and, if applicable, other engagements.

In developing Auditing Standard No. 17, the Board has taken note of observations from its oversight activities regarding the inconsistencies and deficiencies in auditing practices regarding the application of auditing procedures to supplemental information. For example, a 2013 PCAOB inspection report on audits of brokers and dealers, which were performed under GAAS, indicated that PCAOB inspections staff in their inspections of broker and dealer audits identified auditing deficiencies in 57 of 60 audits and that deficiencies in auditing procedures regarding supporting schedules were among the most frequently noted deficiencies in compliance with audit requirements.^{29/}

^{29/} See *Second Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers*, PCAOB Release No. 2013-006 (August 19, 2013), which reports that PCAOB inspection staff identified auditing deficiencies in 57 of the 60 audits of brokers and dealers selected for inspection and that deficiencies in compliance with audit requirements for brokers and dealers under the Exchange Act that were among the most frequently noted by PCAOB inspection staff included deficiencies in audit procedures related to net capital and customer reserve supporting schedules, compliance with the conditions of the exemption claimed by the broker or



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The Board believes that strengthening and clarifying the requirements for supplemental information – and tailoring the required procedures for the supplemental information required by regulatory authorities – will promote consistent auditor performance to support audit reports on supplemental information. Similarly, the risk-based approach set forth in the standard should direct auditors to devote more audit attention to the areas of greatest risk to material misstatement of the supplemental information. The auditor's enhanced focus on the supplemental information should help give regulators greater confidence about the reliability of the supplemental information used in their regulatory oversight, which is important to investor protection. For example, as noted previously, in the context of oversight of brokers and dealers, the audit performance requirements in the standard could improve the quality of supplemental information that regulators rely on when considering whether the broker or dealer maintains adequate safeguards over customer funds and securities.

The Board also has taken into account cost considerations in developing Auditing Standard No. 17. As discussed previously, the use of the "in relation to" approach can accomplish the objectives of the financial statement audit and audit procedures on the supplemental information with more efficient use of resources than the alternative stand-alone approach. Also, the risk-based approach helps avoid unnecessary procedures by focusing audit attention on areas of higher risk. Furthermore, the required coordination of the audit procedures on the supplemental information with the audit of the financial statements – and other engagements, when applicable – helps avoid unnecessary duplication of audit procedures. These measures can facilitate the transition to the new standard and help lessen the effects of the associated costs.

Auditing Standard No. 17 has some commonalities with GAAS, for example, the "in relation to" approach and the requirement to apply audit procedures to the supplemental information. This should help facilitate the transition from GAAS to Auditing Standard No. 17 generally and lessen the associated costs for 11-K filers that are audited under both GAAS and PCAOB standards.

The PCAOB acknowledges that the new standard will create some additional compliance costs for affected market participants. These costs include the one-time implementation costs for registered firms to update their audit methodologies to reflect the new standard and train their personnel. However, because, as mentioned above,

dealer, and the accountant's supplemental report on material inadequacies. See PCAOB Release 2013-006, Executive Summary, at ii.



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the new standard builds on concepts in existing standards and has commonalities with GAAS, the PCAOB does not anticipate that changes associated with initial implementation will result in significant costs to auditors (or to brokers and dealers or covered 11-K filers in the form of increased audit fees).

Further compliance costs, which are associated with audit effort, may depend on auditors' existing auditing practices under pre-existing auditing standards and the size and complexity of the entity being audited.

The Board has taken note of the views of commenters on the proposed standard in assessing economic considerations. Some auditors who commented on the Board's proposal indicated that the procedures required by the proposed auditing standard were similar to their current practices. Comments from other auditors suggested that they did not perform specific procedures to test supplemental information. To the extent that auditors already are testing supplemental information, the PCAOB does not anticipate significant incremental costs associated with compliance with Auditing Standard No. 17. Those incremental costs might be somewhat higher for auditors that have not been performing specific tests of supplemental information.^{30/}

Auditing Standard No. 17 is designed to be scalable based on an entity's size and complexity. Specifically, the audit effort under the standard likely will be greater for entities that have more supplemental information or more complex supplemental information. For example, audit effort generally would be greater for larger, more complex brokers or dealers that carry securities for customers than for smaller, less complex brokers that neither carry nor clear securities. Similarly, audit effort generally would be greater for larger, more complex covered 11-K filers that have more investments and reportable transactions subject to regulatory reporting requirements.

^{30/} The auditors whose comments suggested that they did not perform specific procedures on supplemental information did not address in their letters their current practices for complying with GAAS, which requires audit procedures for supplemental information. To the extent that those auditors apply audit procedures to supplemental information in audits under GAAS, the Board anticipates that the costs of transitioning to Auditing Standard No. 17 would not be significant.



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B. Applicability to Audits of Emerging Growth Companies

The Board is adopting Auditing Standard No. 17 pursuant to its authority under the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley" or the "Act").^{31/}

Before rules adopted by the Board can take effect, they must be approved by the SEC. Pursuant to Section 107(b)(3) of Sarbanes-Oxley, the SEC shall approve a proposed rule if it finds that the rule is "consistent with the requirements of [the] Act and the securities laws, or is necessary or appropriate in the public interest or for the protection of investors."

Additionally, Section 104 of the Jumpstart Our Business Startups Act ("JOBS Act")^{32/} amended Sarbanes-Oxley to provide that any additional rules adopted by the PCAOB after April 5, 2012 do not apply to audits of emerging growth companies ("EGCs")^{33/} unless the SEC "determines that the application of such additional

^{31/} Pub. L. No. 107-204, 116 Stat. 745 (2002). Under Section 101 of the Act, the mission of the PCAOB is to oversee the audit of companies that are subject to the securities laws, and related matters, in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. Section 103 of the Act authorizes the Board to adopt auditing standards for use by registered public accounting firms in the preparation and issuance of audit reports "as required by [the] Act or the rules of the Commission, or as may be necessary or appropriate in the public interest or for the protection of investors."

^{32/} Pub. L. No. 112-106, 126 Stat. 306 (2012).

^{33/} Section 3(a)(80) of the Exchange Act defines the term "emerging growth company." An issuer generally qualifies as an EGC if it has total annual gross revenue of less than \$1 billion during its most recently completed fiscal year (and its first sale of common equity securities pursuant to an effective Securities Act registration statement did not occur on or before December 8, 2011.) See JOBS Act Section 101(a), (b), and (d). Once an issuer is an EGC, it retains its EGC status until the earliest of: (i) the first year after it has total annual gross revenue of \$1 billion or more (as indexed for inflation every five years by the SEC); (ii) the end of the fiscal year after the fifth anniversary of its first sale of common equity securities under an effective Securities Act registration statement; (iii) the date on which the company issues more than \$1 billion in non-convertible debt during the prior three-year period; or (iv) the date on which it is deemed



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requirements is necessary or appropriate in the public interest, after considering the protection of investors, and whether the action will promote efficiency, competition, and capital formation."^{34/}

The following discussion is intended to provide information that may assist the SEC in any determination it may make regarding whether to apply the new standard to audits of EGCs.

As noted above, Auditing Standard No. 17:

- Strengthens and clarifies the audit requirements regarding supplemental information to promote consistent audit performance and compliance with regulatory requirements, which can enhance the quality of information that is used in regulatory oversight for investor protection and, with respect to covered 11-K filers, increase the quality of information available to investors;
- Helps lessen the effects of the costs associated with the new auditing standard by retaining the "in relation to" approach, setting forth a risk-based approach for the required audit procedures, and requiring coordination with the financial statement audit to avoid redundancy in testing; and
- Is designed to be scalable based on the size and complexity of the entity.

The PCAOB has begun monitoring implementation of the JOBS Act to better understand the characteristics of EGCs and inform the Board's considerations regarding whether it should recommend to the SEC that it apply the new standard and related amendments to audits of EGCs. Based on the PCAOB's research of self-identified

to be a "large accelerated filer" under the Exchange Act (generally, an entity that has been public for at least one year and has an equity float of at least \$700 million).

^{34/} See Section 103(a)(3)(C) of Sarbanes-Oxley (15 U.S.C. §7213(a)(3)), as added by Section 104 of the JOBS Act, Pub. L. No. 112-106 (April 5, 2012).



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EGCs, a substantial majority of EGCs are smaller reporting companies that began reporting under the Exchange Act in 2012 or later.^{35/}

Currently, the PCAOB is not aware of EGCs for which auditors would be required to apply this standard. PCAOB staff has performed research on filings of self-identified EGCs. Text searches were used to identify any issuers with audit reports that opine on supplemental information required by Rule 17a-5, and PCAOB staff read the most recent filings of those companies. For those companies for which audited financial statements were available and based on information included in the most recent audited financial statements filed as of May 15, 2013, PCAOB staff has observed that none of the EGCs is a broker or dealer or an 11-K filer. The staff observed one SEC filing containing supplemental information for which an auditor expressed an opinion. Based on the nature of the supplemental information filed, it appears that the issuer included the supplemental information voluntarily rather than pursuant to a requirement specified by rule.

As noted previously, to the Board's knowledge, the only entities that are required to file supplemental information to which Auditing Standard No. 17 will apply are (1) brokers and dealers pursuant to SEC Rule 17a-5 and (2) covered 11-K filers. PCAOB staff has discussed the applicability of the JOBS Act to this rulemaking with the SEC staff. The reporting regimes for registered brokers and dealers under SEC Rule 17a-5 and the reporting regime for employee benefit plans that must comply with financial reporting requirements under both ERISA and the SEC are separate and distinct from those for companies subject to reporting requirements pursuant to Section 13 and 15 of the Exchange Act or for a Securities Act registration statement. The Board defers to the SEC on the applicability of the JOBS Act to this rulemaking for these entities and stands ready to assist the SEC with any additional analysis that may become necessary.

In the event that the standard would be applied to an EGC, the Board has no reason to believe that the economic effects on those EGCs would be different from those described previously for brokers, dealers, and covered 11-K filers. Accordingly,

^{35/} See Appendix 7 of *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, Reports on Audited Financial Statements, and The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report, and Related Amendments to PCAOB Standards*, PCAOB Release No. 2013-005 (August 13, 2013).



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and pursuant to the foregoing discussions, the PCAOB requests that the Commission, to the extent necessary, determine that it is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation, to apply these amendments to audits of EGCs.

VI. Effective Date

Auditing Standard No. 17 will be effective, subject to approval by the SEC, for audit procedures and reports on supplemental information that accompanies financial statements for fiscal years ending on or after June 1, 2014. This effective date coincides with the effective date for the corresponding amendments to SEC Rule 17a-5.^{36/}

* * *

^{36/} See the SEC Release at 2.



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On the 10th day of October, in the year 2013, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

October 10, 2013

APPENDIX 1 – Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*

APPENDIX 2 – Amendments to PCAOB Standards

APPENDIX 3 – Additional Discussion of Auditing Standard No. 17

APPENDIX 4 – Comparison of the Requirements of Auditing Standard No. 17 with the Analogous Standard of the Auditing Standards Board of the American Institute of Certified Public Accountants



Appendix 1

Auditing Standard No. 17

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 perform audit procedures and report on **supplemental information**^{1/} that accompanies financial statements^{2/} audited pursuant to Public Company Accounting Oversight Board ("PCAOB") standards.

Objective

2. The objective of the auditor of the financial statements, when engaged to perform audit procedures 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 regarding whether the supplemental information is fairly stated, in all material respects, 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 depends on, among other things:

^{1/} Terms defined in Appendix A, Definitions, are set in **boldface type** the first time they appear.

^{2/} For purposes of this standard, supplemental information "accompanies financial statements" when it is (1) presented in the same document as the audited financial statements, (2) presented in a document in which the audited financial statements are incorporated by reference, or (3) incorporated by reference in a document containing the audited financial statements.



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

Note: When planning and performing the audit procedures to report on supplemental information, the auditor generally should use the same materiality considerations as those used in planning and performing the audit of the financial statements.^{3/} However, if applicable regulatory requirements specify a lower materiality level to be applied to certain supplemental information, the auditor should use those prescribed threshold requirements in planning and performing audit procedures for the supplemental information.

- c. The evidence obtained from the audit of the financial statements and, if applicable, other engagements by the auditor or affiliates of the firm,^{4/} 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").^{5/} The auditor should take into account relevant evidence from the audit of the financial statements and, for audits of brokers or dealers, the attestation engagements, in planning and performing audit

^{3/} 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.

^{4/} The term "affiliates of the firm" as used in this standard has the same meaning as the term "affiliates of the accounting firm" as defined in PCAOB Rule 3501.

^{5/} See Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, and Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*.



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 performing the audit procedures on 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, evaluate the appropriateness of those methods, 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 the information presented in the supplemental information to the extent that it was not tested as part of the audit of financial statements; and
 - f. Evaluate whether the supplemental information, including its form and content, complies with 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 fair presentation of the supplemental information and, if applicable, the form and content of that supplemental information, in conformity with relevant regulatory requirements or other applicable criteria;



- 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 other applicable criteria, and identification of those requirements or other applicable criteria; and
- e. A description of 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. To form an opinion on the supplemental information, 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.^{6/} 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.

8. The auditor should 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.

^{6/} See paragraph 10 of Auditing Standard No. 14, *Evaluating Audit Results*, which discusses the auditor's responsibilities regarding the accumulation of misstatements in an audit of financial statements.



Note: The auditor should evaluate the effect of uncorrected misstatements related to the supplemental information in evaluating the results of the financial statement audit.^{7/}

9. The auditor should evaluate the effect of any modifications to the audit report on the financial statements when forming an opinion on the supplemental information:
- a. When the auditor expresses a qualified opinion on the financial statements and the basis for the qualification also applies to the supplemental information, the auditor should describe the effects of the qualification on the supplemental information in the report on supplemental information and should express a qualified opinion on the supplemental information.
 - b. When the auditor expresses an adverse opinion, or disclaims an opinion on the financial statements, the auditor should express an adverse opinion, or disclaim an opinion, on the supplemental information, whichever is appropriate.

Reporting

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

Note: 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 is the responsibility of management.
 - c. A statement that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements.

^{7/} See paragraph 17 of Auditing Standard No. 14, which discusses evaluation of uncorrected misstatements in the financial statement audit.



Note: If the financial statements are presented in a separate document from the supplemental information or otherwise are not readily identifiable to the user of the supplemental information, the auditor's report on supplemental information should identify the document containing the company's financial statements.

- d. 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 presented in the supplemental information.
 - e. A statement that in forming the auditor's opinion, the auditor evaluated whether supplemental information, including its form and content, complies, in all material respects, with the specified regulatory requirements or other criteria, if applicable.
 - 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.
 - g. 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.
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 identify 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.^{8/}

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

The [identify supplemental information] has been subjected to audit procedures performed in conjunction with the audit of [Company's] financial statements. The [supplemental information] is the responsibility of the Company's management. 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 information presented in the [supplemental information]. In forming our opinion on the [supplemental information], we evaluated whether the [supplemental information], including its form and content, is presented in conformity with [specify the relevant regulatory requirement or other criteria, if any]. In our opinion, the [identify supplemental information] is fairly stated, in all material respects, in relation to the financial statements as a whole.

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 audit 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

^{8/} AU sec. 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, sets forth procedures to be followed by the auditor who, subsequent to the date of the report upon audited financial statements becomes aware that facts may have existed at that date that might have affected the report had he or she then been aware of such facts. AU sec. 561 applies to situations in which the auditor identifies a material misstatement of the financial statements while performing audit procedures on supplemental information after the date of the auditor's report on the financial statements.



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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 audit 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 Rule 17a-5 under the Securities Exchange Act of 1934;^{1/}
- b. Supplemental information (i) required to be presented pursuant to the rules and regulations of a regulatory authority and (ii) covered by an independent public accountant's report on that information in relation to financial statements that are audited in accordance with PCAOB standards; or
- c. Information that is (i) ancillary to the audited financial statements, (ii) derived from the company's accounting books and records, and (iii) covered by an independent public accountant's report on that information in relation to the financial statements that are audited in accordance with PCAOB standards.

^{1/} See 17 C.F.R. § 240.17a-5 (d)(2).



Appendix 2

Amendments to PCAOB Standards

Auditing Standard No. 16, "Communications with Audit Committees"

Auditing Standard No. 16, *Communications with Audit Committees*, is amended as follows:

- a. The second sentence of footnote 27 to paragraph 14 is replaced with:

In addition to AU sec. 550, discussion of the auditor's consideration of other information is included in Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*, AU sec. 558, *Required Supplementary Information*, and AU sec. 711, *Filings Under Federal Securities Statutes*.

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 Auditing Standard No. 17, *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 voluntary disclosures should be labeled "unaudited" and the auditor should disclaim an opinion on the unaudited information.

- c. In the second flowchart in paragraph .10, "Auditing Guidance for Fair Value Information, Required and Voluntary 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, "Auditing Guidance for Fair Value Information, Required and Voluntary Information," 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. See paragraph 10 of Auditing Standard No. 17, *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 at the end of the paragraph, the sentence, "(See Section 551.)" is deleted.

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

SAS No. 8, "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 paragraph, the sentence "(see sections 551* and 623**)" is replaced with:



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(See Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*, and AU sec. 623**).

- Footnote * to paragraph .03 is deleted.
- b. Paragraph .07 is deleted.

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

SAS No. 29, "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"

SAS No. 42, "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:

Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*, sets forth the auditor's responsibilities when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to Public Company Accounting Oversight Board standards.

AU sec. 558, "Required Supplementary Information"

SAS No. 52, "Required Supplementary Information" (AU sec. 558, "*Required Supplementary Information*"), as amended, is amended as follows:

- a. Footnote 3 to paragraph .03 is deleted.
- b. The second sentence of paragraph .05 is replaced with:

Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*, sets forth the auditor's responsibilities when the auditor of the company's financial statements is



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engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to Public Company Accounting Oversight Board standards.

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

Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, sets forth the auditor's responsibilities when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to Public Company Accounting Oversight Board standards.



Appendix 3

Additional Discussion of Auditing Standard No. 17

This appendix provides background information and additional detail regarding Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements* (the "standard"), which is presented in Appendix 1.

In particular, this appendix discusses significant comments received and revisions made by the Board to the standard to respond to comments. This appendix further describes how the standard will change the requirements from existing PCAOB auditing standards, specifically, AU sec. 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*.

I. Applicability of the Standard and Definition of Supplemental Information (Appendix A - Definitions)

Auditing Standard No. 17 applies when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to PCAOB standards.

As discussed in the release, the Securities and Exchange Commission ("SEC" or "Commission") and other regulators may require regulated entities, such as brokers and dealers, to file supplemental information with their annual financial reports for regulatory purposes.^{1/} In other cases, companies may voluntarily provide supplemental information that is derived from, or ancillary to, the company's financial statements audited pursuant to PCAOB standards.

The proposed standard included a definition of the types of supplemental information to which this standard would apply. In response to questions in the

^{1/} Rule 17a-5 under the Securities Exchange Act of 1934 ("Exchange Act") requires brokers and dealers registered with the SEC to submit financial reports to the SEC that include audited financial statements as well as certain required supporting schedules ("SEC Rule 17a-5"). See 17 C.F.R. § 240.17a-5. Paragraph (d)(2) of SEC Rule 17a-5 specifically addresses the supporting schedules. See also SEC Exchange Act Release No. 34-70073, *Broker-Dealer Reports* (July 30, 2013), 78 Federal Register 51910 (August 21, 2013) ("SEC Release").



proposing release, several commenters stated that the proposed definition was appropriate, while other commenters expressed concern that, as the proposed definition was expressly tailored to supplemental information included in certain SEC filings by brokers and dealers, the definition did not describe all types of supplemental information that auditors of issuers, brokers, and dealers might be engaged to report on.

In particular, several commenters expressed concern that the proposed definition would exclude certain types of supplemental information because that information is not included in SEC filings. One commenter noted that information that is ancillary to financial statements and not otherwise required to be presented pursuant to the rules and regulations of the SEC or another relevant regulatory body, may also be reported on, but not included in an SEC filing. Another commenter gave examples of situations when issuers engage auditors to report on supplemental information that would be excluded under the proposed standard's definition of supplemental information, including subsidiary-specific data or information used to calculate financial ratios related to a loan covenant or other contractual provision.

After consideration of these comments, the definition of supplemental information has been revised to remove the references to SEC filings. Auditing Standard No. 17 covers the following types of supplemental information:

- a. Supporting schedules that brokers and dealers are required to file pursuant to SEC Rule 17a-5;^{2/}
- b. Supplemental information (i) required to be presented pursuant to the rules and regulations of a regulatory authority and (ii) covered by an independent public accountant's report on that information in relation to financial statements that are audited in accordance with PCAOB standards; or
- c. Information that is (i) ancillary to the audited financial statements, (ii) derived from the company's accounting books and records, and (iii) covered by an independent public accountant's report on that information in relation to the financial statements that are audited in accordance with PCAOB standards.

^{2/} See paragraph (d)(2) of SEC Rule 17a-5.



As mentioned previously, the standard covers supplemental information required by regulatory authorities and supplemental information that is voluntarily provided, when the auditor is engaged to report on that information in relation to the financial statements as a whole and the financial statements are audited in accordance with PCAOB standards. However, the standard itself does not impose an obligation to audit such supplemental information.

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

Further, the standard does 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, in those instances, the auditor of the supplemental information should look to the requirements in AU sec. 623, *Special Reports*.

Some commenters suggested that the standard would not apply to supplemental information prepared after the financial statement audit because of the requirement in the proposed standard, and related statement in the auditor's report, that the audit procedures on the supplemental information be performed in conjunction with the audit of the financial statements. Auditing Standard No. 17 applies when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies audited financial statements, regardless of the timing of the preparation of the supplemental information.



To address issues regarding timing, a footnote was added to paragraph 1 of the standard to clarify that supplemental information "accompanies financial statements" when it is (1) presented in the same document as the audited financial statements, (2) presented in a document in which the audited financial statements are incorporated by reference, or (3) incorporated by reference in a document containing the audited financial statements.

Additionally, the note to paragraph 3.c. of the standard includes the phrase "in conjunction with." That phrase is meant to indicate that the auditor of the financial statements is in a position to take into account other information available as a result of the financial statement audit, but Auditing Standard No. 17 does not require that the two engagements be performed simultaneously. The note to paragraph 3.c. explains the auditor's responsibilities for performing audit procedures on the supplemental information "in conjunction with" the audit of the financial statements. That note states that the auditor should take into account relevant evidence from the audit of the financial statements and the attestation engagements^{3/} 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. As such, the language in the standard was retained largely as proposed.

A. Exclusion of Schedules Required by SEC Regulation S-X

Some commenters expressed concern with the definition of supplemental information because of the discussion in the proposing release,^{4/} which stated that the standard would not apply to schedules prepared pursuant to SEC Regulation S-X.^{5/} One commenter noted that diversity in practice suggests that these schedules may be considered supplementary and not part of the basic financial statements covered by the standard auditor's opinion. The views of these commenters are not consistent with SEC

^{3/} See *Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards*, PCAOB Release No. 2013-007 (October 10, 2013).

^{4/} See Section I.A.1 of Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards*, PCAOB Release No. 2011-005 (July 12, 2011).

^{5/} See Section 1-01(b) of SEC Regulation S-X, 17 C.F.R. § 210.1-01(b).



requirements. Section 1-01(b) of SEC Regulation S-X^{6/} states "the term financial statements as used...shall be deemed to include all notes to the statements and all related schedules". Thus, it is clear that the schedules required by SEC Regulation S-X are part of the financial statements. As such, no changes were made to the standard.^{7/}

II. **"In Relation to" the Financial Statements as a Whole (Paragraphs 1 and 2)**

As stated in the proposing release, the auditor's report on supplemental information in the 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. In order to express an opinion on the supplemental information the auditor performs the procedures set forth in the standard, to the extent not performed in the course of the audit. The concept of expressing an opinion on the supplemental information "in relation to" the financial statements as a whole carries over from the Board's existing standard for supplemental information, AU sec. 551.

The proposing release requested comment regarding whether to change from the AU sec. 551 "in relation to" approach to reporting on supplemental information to a stand-alone reporting approach. Overall, commenters supported the decision to retain the "in relation to" approach. One commenter stated that it was an appropriate degree of responsibility for supplemental information. Another commenter stated that the level of assurance provided by this type of engagement meets the needs of users in a cost-effective manner.

After consideration of the comments received, the Board determined that the "in relation to" approach remains appropriate for reporting on supplemental information accompanying audited financial statements. Nothing in the comments received indicates that an "in relation to" opinion on supplemental information is inadequate for financial statement users or that the additional cost for stand-alone assurance is warranted for all engagements involving supplemental information. The Board also considered that existing standards, specifically AU sec. 623, establish requirements in

^{6/} See e.g., Rules 5-04, 6-10, 6A-05, 7-05, and Article 12 of Regulation S-X, 17 C.F.R. § 210.5-04, 6-10, 6A-05, 7-05, and 12.

^{7/} The schedules required by SEC 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*.



those limited situations in which auditors are engaged to audit supplemental information on a stand-alone basis.

Some commenters expressed concern that use of the word "audit" in the introduction and objective paragraphs of the proposed standard implied that the standard requires the auditor to issue a stand-alone audit opinion on supplemental information and that the reference to audit goes beyond the meaning of "in relation to."

The standard does not require the auditor to issue a stand-alone audit opinion on the supplemental information. However, the standard emphasizes that the auditor should perform procedures to obtain sufficient appropriate audit evidence to support his or her opinion that the supplemental information is fairly stated, in all material respects, "in relation to" the financial statements as a whole. To avoid misperceptions, the wording in paragraphs 1 and 2 of the standard has been revised to state, "...when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information..." Further, several of the amendments in appendix 2 were revised to reflect this wording.

III. Materiality (Paragraph 3)

The proposed standard included a requirement for the auditor, in the performance of audit procedures on supplemental information, to use the same materiality considerations as those 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. Commenters generally supported using the same materiality considerations for supplemental information as those used in the financial statement audit. In general, auditors that are engaged to express an opinion on supplemental information "in relation to" the financial statements as a whole use the same materiality considerations for the audit of the supplemental information as those used in planning and performing the audit of the financial statements.

One commenter recommended that the standard acknowledge instances in which regulatory requirements may prescribe a materiality level for audit procedures over supplemental information that differs from the materiality level used in the audit of the financial statements. As auditors might encounter instances in which this occurs, a note has been added to paragraph 3.b. of the standard stating that "if applicable regulatory requirements specify a lower materiality level to be applied to certain supplemental information, the auditor should use those prescribed threshold requirements in planning and performing audit procedures for the supplemental



information." For example, if the supplemental information consisted of a list of transactions over a threshold specified by a regulatory agency, the auditor should use that prescribed threshold in planning and performing the audit procedures to be applied to the supplemental information. This is consistent with the requirement in Auditing Standard No. 11 to use a lower materiality level for accounts and disclosures for which there is a substantial likelihood that misstatements of lesser amounts than the materiality level established for the financial statements as a whole would influence the judgment of a reasonable investor.^{8/}

Another commenter expressed concern that paragraph 3 of the proposed standard, which requires the auditor to base the nature, timing, and extent of audit procedures on, among other things, the materiality of the information presented, implied that the auditor will undertake a second audit, separate from the audit of the financial statements. Paragraph 3 of the standard does not require the auditor to perform a second audit. The note to paragraph 3.b. specifically provides that the auditor should use the same materiality considerations for the supplemental information as that for the audit of the financial statements. In general, the objective of using the same materiality considerations from the financial statement audit is consistent with the principle of reporting on the supplemental information in relation to the financial statements as a whole. As such, paragraph 3 was retained substantially as proposed. If the auditor is engaged to audit and report on a stand-alone basis (i.e., not "in relation to"), separate and apart from the audit of the financial statement, the auditor should look to the requirements in AU sec. 623. A stand-alone audit of supplemental information under AU sec. 623 is usually more extensive than applying audit procedures and reporting on supplemental information in relation to the financial statements taken as a whole.^{9/}

IV. Performing Audit Procedures on Supplemental Information Accompanying Audited Financial Statements (Paragraphs 3 and 4)

Similar to AU sec. 551, the standard auditor's report on supplemental information pursuant to Auditing Standard No. 17 includes an opinion on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole. As with any audit opinion, it is necessary for the auditor to obtain

^{8/} See paragraph 7 of Auditing Standard No. 11.

^{9/} See AU sec. 623.13.



reasonable assurance so the auditor has a reasonable basis for that opinion.^{10/} Accordingly, Auditing Standard No. 17 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.

At the same time, Auditing Standard No. 17 recognizes that the circumstances in which the auditor expresses an opinion on supplemental information differ from those of a stand-alone audit. That is, the opinion under Auditing Standard No. 17 is expressed in relation to the financial statements as a whole, and the auditor's procedures on the financial statements ordinarily provide substantial evidence that is relevant to the supplemental information. Thus, the standard provides that 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:

- The risk of material misstatement of the supplemental information;
- The materiality considerations relevant to 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 accounting firm for the period presented; and
- Whether a qualified opinion, an adverse opinion, or a disclaimer of opinion was issued on the financial statements.

Further, the standard states that 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, the procedures should be coordinated with the attestation engagements related to compliance or exemption

^{10/} This also is consistent with the requirements of SEC Rule 17a-5, which requires the auditor to perform an examination of the broker's or dealer's financial report, which consists of the financial statements and supplemental schedules. See paragraph (g) of SEC Rule 17a-5. See also the SEC Release at 74, which discusses the SEC's intention that the auditor obtain reasonable assurance regarding the financial statements and supporting schedules of brokers and dealers.



reports required by the SEC.^{11/} One commenter stated that this requirement implies that the auditor would be required to separately consider and document audit planning considerations relative to supplemental information.

While the standard requires the auditor to assess the risk of material misstatement of the supplemental information as part of determining the nature, timing, and extent of audit procedures, the standard allows this assessment to be performed with, and informed by, the planning and performance of procedures relating to the financial statement audit. The auditor's knowledge obtained from the audit of financial statements and any related engagements (such as an attestation engagement) should generally provide necessary knowledge for the auditor to assess the risk of material misstatement regarding the supplemental information.

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 may be obtained from procedures performed during an attestation engagement regarding compliance for a broker or dealer and include procedures regarding safeguarding securities or compliance with certain SEC rules.

In addition, paragraph 4 of the standard includes requirements for the auditor to perform the following procedures on 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, evaluate the appropriateness of those methods, 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;

^{11/} For example, a compliance examination performed pursuant to Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, includes compliance tests relating to the schedules the broker or dealer used to determine compliance with the SEC's net capital rule, 17 C.F.R. § 240.15c3-1, and the reserve requirements rule, paragraph (e) of 17 C.F.R. § 240.15c3-3.



- 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 information presented in the supplemental information to the extent that it was not tested as part of the audit of financial statements; and
- f. Evaluate whether the supplemental information, including its form and content, complies with relevant regulatory requirements or other applicable criteria, if any.

Some commenters stated that certain of the required procedures in the proposed standard exceeded those procedures necessary to support an auditor's "in relation to" opinion on supplemental information. Commenters stated that the required procedures in paragraph 4.d. and 4.e. expand the scope of the auditor's responsibility as compared to the existing requirements in AU sec. 551 with respect to information that was not derived from the underlying accounting records. One commenter further stated that information not derived from the underlying accounting records, by its nature, is not subject to internal control over financial reporting and likely would not have been subjected to the auditor's procedures in the audit of the financial statements.

In many instances, supplemental information reported on under PCAOB standards is required by regulators that have determined that the information required is important to carrying out their regulatory authority, and users of that information can reasonably expect that an auditor's report on supplemental information means that the supplemental information has been subjected to audit procedures. This is consistent with AU sec. 551.07, which states that the auditor may "choose to modify or redirect certain of the procedures to be applied in the audit of the basic financial statements so that [the auditor] may express an opinion on the accompanying information" under that standard. If, as some commenters suggested, the auditor's procedures are limited to solely those procedures performed in the financial statement audit, it is possible that few or no audit procedures might be applied directly to the supplemental information in some engagements, and the auditor would have little or no basis for his or her opinion.

One commenter suggested a revision to the proposed requirement regarding the auditor's responsibility for understanding and evaluating the methods used by management to prepare the supplemental information. The commenter recommended



that the auditor should evaluate the appropriateness of the methods used by management to prepare the supplemental information, as well as any changes to those methods. Such a suggestion can be viewed as a necessary step in evaluating whether the supplemental information is fairly stated, so the standard has been revised to specifically include that procedure.

One commenter suggested that consultation with legal counsel or other experts may be necessary. The standard does not prohibit such consultations. Other commenters suggested that additional procedures be included in the standard, such as a requirement for the auditor to consider the complexity of the methodology used to prepare supplemental information, particularly in those situations in which complex analytical or sampling techniques have been employed in the preparation of underlying data. These suggestions did not warrant changes to the standard because the suggested examples are factors that affect the risk of material misstatement of the supplemental information, which the standard already addresses in paragraph 3.

V. Management Representations (Paragraph 5)

The proposed standard included a requirement for the auditor to obtain written representations from management. Commenters generally supported the language as proposed. One commenter recommended that the standard include an additional requirement for auditors to obtain a representation that management acknowledge its responsibility for the fair presentation of the supplemental information, including its form and content, in accordance with regulatory requirements or other applicable criteria. This additional requirement has been incorporated into the standard.

One commenter suggested that the standard specifically address management representations with respect to supplemental information arising after the auditor has been engaged to perform the financial statement audit. As discussed previously, the auditor's and management's responsibilities relating to supplemental information are not affected by timing considerations, such as whether or not the audit procedures required for the supplemental information were considered when the auditor was first engaged to audit the financial statements; therefore, no changes were made to the standard to address such circumstances. Further, the standard does not prohibit auditors from obtaining additional representations from management in the case in which the auditor believes additional management representations would be appropriate under the circumstances.



VI. Evaluation of Audit Results (Paragraphs 6 - 9)

The proposed standard included 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 evaluation should encompass, among other things, whether the information: is complete and accurate, is consistent with the audited financial statements, and complies with relevant regulatory requirements, if applicable.

Commenters generally agreed that the auditor's evaluation of form and content is important to the auditor's evaluation as to whether the supplemental information is fairly stated. One commenter suggested that modification be made to paragraph 6 so that the evaluation of audit results is in the context of the auditor's responsibility to form an opinion on the supplemental information. This recommendation has been reflected in the standard because it provides additional context that helps to clarify the auditor's responsibilities in this area.

Paragraph 9 of the proposed standard included a requirement 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. One commenter stated that the auditor should be prohibited from expressing an "in relation to" opinion on the supplemental information when an adverse or disclaimer of opinion has been issued. Other commenters suggested that additional guidance would be necessary regarding the effect of modification of the auditor's report on the financial statements on the auditor's report on supplemental information. Some commenters suggested that the standard be revised to follow the requirements in the existing standard more closely regarding when the auditor has issued an adverse opinion or disclaims an opinion on the financial statements.

After consideration of the comments received, the standard was revised to include updated and expanded direction on reporting in these situations. Specifically, paragraph 9 of the standard has been revised to state that the auditor should evaluate the effect of any modifications to the audit report on the financial statements when forming an opinion on supplemental information. The standard provides that:

- a. When the auditor expresses a qualified opinion on the financial statements and the basis for the qualification also applies to the supplemental information, the auditor should describe the effects of the qualification on



the supplemental information in the report on supplemental information and should express a qualified opinion on the supplemental information.

- b. When the auditor expresses an adverse opinion, or disclaims an opinion on the financial statements, the auditor should express an adverse opinion, or disclaim an opinion, on the supplemental information, whichever is appropriate.

VII. Reporting (Paragraphs 10 – 15)

The proposed standard included requirements regarding reporting on supplemental information that described the auditor's responsibilities when reporting on the types of supplemental information covered by the proposed standard.

The 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." One commenter supported retaining this wording in the standard. However, such a statement could be misunderstood by users as indicating that the supplemental information is supplied on a voluntary basis even when governed by rules regarding content or presentation. In fact, supplemental information presented by brokers, dealers, and others often is presented in conjunction with audited financial statements to comply with rules of regulatory agencies that generally specify the form and content of the information to be provided.

Further, the standard does not retain from AU sec. 551 the statement that "the audit has been performed for the purpose of forming an opinion on the basic financial statements taken as a whole." One commenter supported including this wording in the standard. However, such a statement could confuse users regarding the relationship between the audit of financial statements and the auditor's "in relation to" opinion on supplemental information given that audit procedures have been performed on the supplemental information that serve to support the auditor's "in relation to" opinion.

The reporting language in the standard is intended to clearly communicate the auditor's responsibilities regarding evaluating the supplemental information. For example, the standard requires the auditor's report to state that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements. Also, the standard includes a requirement for the auditor to describe the audit procedures on the supplemental information. This approach differs from the report language provided in AU sec. 551, which provides that the auditor's report should state that the supplemental information has been subjected



to the auditing procedures that were applied in the audit of the basic financial statements.

Consistent with AU sec. 551, paragraph 11 of the standard states that, unless prescribed by regulatory requirements,^{12/} 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, the standard provides that the auditor's report on the supplemental information should identify the auditor's report on the financial statements.

The standard also includes an example of the auditor's report on supplemental information when included with the auditor's report on the financial statements.

One commenter suggested that the reporting elements include a statement that the supplemental information is the responsibility of management and that such a revision would serve to clarify the auditor's responsibility in this area. This recommendation has been incorporated into the list of required elements in the auditor's report on supplemental information. Some commenters expressed concern that report language in paragraph 13 of the proposed standard, "...and accordingly, its form and content comply, in all material respects, with the relevant regulatory requirements," could be viewed as a separate opinion regarding compliance or as conveying more responsibility for form and content than appropriate.

Because the intention of the proposed standard was not to require a stand-alone opinion on the supplemental information or on compliance, the standard includes revised report elements intended to emphasize that the auditor's evaluation of form and content is part of determining whether the supplemental information is fairly stated, in all material respects, in relation to the audited financial statements rather than a separate opinion on compliance. The revisions are also responsive to commenters who were generally supportive that evaluating form and content is important to the auditor's determination of whether supplemental information is fairly stated in relation to the audited financial statements.

^{12/} For example, paragraph (g)(1) of SEC Rule 17a-5 requires the auditor to prepare an auditor's report on the broker's or dealer's financial report, which covers both the financial statements and supporting schedules.



The standard states that if the auditor is unable to obtain sufficient appropriate audit 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 audit 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. The standard provides the elements that should be included in the auditor's report on supplemental information, many of which are the same as those included in the proposed standard.

Other commenters expressed concern that the reporting requirements in the proposed standard would require a registered public accounting firm to make a legal determination regarding a company's compliance with relevant regulatory rules. The auditor's report issued pursuant to the standard does not provide, or purport to provide, a legal determination of a broker's or dealer's compliance with the net capital rule or the reserve requirements rule or any other legal determination. However, such a report may be useful to legal counsel or others in making such determinations.

One commenter suggested including a reference to AU sec. 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, in the proposed standard. The commenter suggested that this standard might be applicable in situations in which the date of the auditor's report on supplemental information is subsequent to the date of the auditor's report on the financial statements. Such a revision would serve to remind auditors of their responsibilities under AU sec. 561. A footnote to paragraph 12.b. was added to address this topic.



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Appendix 4

Comparison of the Requirements of Auditing Standard No. 17 with the Analogous Standard of the Auditing Standards Board of the American Institute of Certified Public Accountants

Introduction

This appendix discusses certain noteworthy differences between requirements of Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*, and the analogous standard of the Auditing Standards Board ("ASB") of the American Institute of Certified Public Accountants ("AICPA"). The analogous standard of the AICPA is Statement on Auditing Standards, *Supplementary Information in Relation to the Financial Statements as a Whole* ("AU-C Section 725").^{1/} This comparison does not cover the application and explanatory material in the ASB standard.^{2/} The International Auditing and Assurance Standards Board does not have an analogous standard.

This appendix is provided for informational purposes only. It is not a summary of or substitute for the auditing standard in Appendix 1 or the amendments in Appendix 2. This comparison may not represent the views of the ASB regarding its standard.

^{1/} These AU-C Sections are contained in Statement on Auditing Standards No. 122, *Statement on Auditing Standards: Clarification and Recodification* ("SAS No. 122"). In October 2011, the ASB adopted SAS No. 122, which contains 39 clarified SASs with "AU-C" section numbers for each clarified SAS. The "AU-C" is a temporary identifier to avoid confusion with references to existing "AU" sections in AICPA Professional Standards.

^{2/} Paragraph A64 of the AU-C 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards*, states that although such guidance "does not in itself impose a requirement, it is relevant to the proper application of the requirements of an AU-C section."



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Conditions in Order to Opine on Supplemental Information

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Auditing Standard No. 17 does not include conditions in order to opine on supplemental information. Such conditions are not considered necessary in the standard because the supplemental information covered by Auditing Standard No. 17 is generally required by the SEC or other regulatory bodies.

ASB

AU-C Section 725 states that, in order to opine on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, the auditor should determine that: (a) the supplementary information was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements; (b) the supplementary information relates to the same period as the financial statements; and (c) the auditor issued an audit report on the financial statements that contained neither an adverse opinion nor a disclaimer of opinion. Although Auditing Standard No. 17 does not contain such explicit conditions, the scope of Auditing Standard No. 17 is similar to AU-C Section 725 in that both standards apply only when the auditor of the financial statements is engaged to perform audit procedures and report on supplemental information accompanying audited financial statements.

AU-C Section 725 also 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. Auditing Standard No. 17 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. Rather, rules of the SEC and other regulatory agencies specify the requirements for filing or furnishing supplemental information, and whether that supplemental information is to be made publically available.

Performing Audit Procedures on Supplemental Information Accompanying Audited Financial Statements

PCAOB

Paragraph 4 of Auditing Standard No. 17 requires 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, evaluate the appropriateness of those methods, 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, as applicable;
- Perform procedures to test the completeness and accuracy of the information presented in the supplemental information to the extent that it was not tested as part of the audit of financial statements; and
- Evaluate whether the supplemental information, including its form and content, complies with relevant regulatory requirements or other applicable criteria, if any.

Additionally, a note to paragraph 3.b. of Auditing Standard No. 17 includes a requirement that when planning and performing the audit procedures to report on supplemental information, the auditor generally should use the same materiality considerations as those used in planning and performing the audit of the financial statements. Additionally, that note further states that if applicable regulatory requirements specify a lower materiality level to be applied to certain supplemental information, the auditor should use those prescribed threshold requirements in planning and performing audit procedures for the supplemental information.

ASB

AU-C Section 725 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.



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AU-C Section 725 specifically 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, such as 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 complies with the applicable criteria.

Paragraph 4.a. of Auditing Standard No. 17 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.

AU-C Section 725 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.

Paragraph 4.b. of Auditing Standard No. 17 includes requirements that the auditor obtain an understanding of the methods of preparing the supplemental information, evaluate the appropriateness of those methods, 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. This last requirement can be important in determining whether the form and content of the information complies with relevant regulatory requirements.

AU-C Section 725 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. Paragraph 4.d. of Auditing Standard No. 17 includes a requirement for the auditor to determine that the supplemental information reconciles to the underlying accounting and other records or to the financial statements rather than only to those records used in preparing the financial statements. Certain schedules may be required by the SEC or other regulators that are prepared from information not directly used to prepare financial statements.

Management's Representations

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Paragraph 5 of Auditing Standard No. 17 includes a requirement for the auditor to obtain from management certain written representations regarding the supplemental information.



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ASB

AU-C Section 725 requires the auditor to obtain similar representations from management.

AU-C Section 725 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. Auditing Standard No. 17 does not require the auditor to obtain that representation because rules of the SEC and other regulatory agencies specify the requirements for furnishing supplemental information. Further, Auditing Standard No. 17 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, so a similar requirement in Auditing Standard No. 17 is not appropriate.

Evaluation of Audit Results

PCAOB

Paragraph 6 of Auditing Standard No. 17 includes a requirement that to form an opinion on the supplemental information, 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.

Paragraph 7 of Auditing Standard No. 17 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.

Paragraph 8 of Auditing Standard No. 17 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.



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ASB

AU-C Section 725 requires the auditor to evaluate the appropriateness and completeness of the supplementary information, considering the results of the procedures performed and other knowledge obtained during the audit of the financial statements.

Reporting

PCAOB

Paragraph 10 of Auditing Standard No. 17 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 is the responsibility of management, 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.

Paragraph 10 of Auditing Standard No. 17 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 include a statement that, in forming the auditor's opinion on whether the supplemental information was fairly stated, the auditor evaluated whether supplemental information, including its form and content, complies, in all material respects, with the specified regulatory requirements or other criteria.

Additionally, paragraph 10 of Auditing Standard No. 17 includes a requirement that if the 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

AU-C Section 725 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.

Auditing Standard No. 17 does not include similar language.