Federal Accounting Standards Advisory Board

Preliminary Views on Eliminating the Category "Required Supplementary Stewardship Information"

Written comments are requested by March 15, 2001

December 2000

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Federal Accounting Standards Advisory Board (FASAB or "the Board") was established by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General in October 1990. It is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standard is published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards.

Additional background information is available from the FASAB:

- *"Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board," Amended October 1, 1999.*
- *"Mission Statement: Federal Accounting Standards Advisory Board"*

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Federal Accounting Standards Advisory Board

December 11, 2000

To: Users, preparers, and auditors of federal financial information

The Federal Accounting Standards Advisory Board (FASAB) seeks comments on its preliminary views on eliminating Required Supplementary Stewardship Information (RSSI) as a category of information in federal financial reports. This document is a step toward one or more exposure drafts of a Statement of Federal Financial Accounting Standards, but it is not an exposure draft of a proposed standard. The Board would proceed to a final Statement of Standards on this subject only after considering comments on this document and on one or more subsequent exposure drafts issued pursuant to it.

RSSI is a category unique to federal financial reporting. The Board intended RSSI to be similar in importance to the basic financial statements and associated notes (together referred to by FASAB as "basic information") on which the auditor expresses an opinion (i.e., provides positive assurance) about conformance with generally accepted accounting principals (GAAP), but the Board contemplated that GAO and OMB would provide special guidance to the auditor for RSSI. For reasons explained in this document, the Board proposes to eliminate the RSSI category. Items of information that current standards require to be reported as RSSI would be reclassified by future standards as basic information or as required supplementary information (RSI). The classification could vary from item to item, depending on the relevant factors.

Written comments on these preliminary views are invited. Specific questions are listed on page 21. You are encouraged to address some or all questions and to comment on any section of this document. To the extent possible, please provide the rationale for your comments and for any alternative you prefer. Respondents are encouraged to consider the issues in light of Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Comments on these preliminary views should be sent by March 15, 2001 to:

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The Board will schedule a public hearing on this proposal if public interest justifies doing so. If the Board decides to schedule a public hearing, it will be announced in advance in the Federal Register and in FASAB's newsletter.

David Mosso
Chairman

Preliminary Views On
Eliminating the Category "Required Supplementary Stewardship Information"

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ACRONYMS

AAPC	Accounting and Auditing Policy Committee
AICPA	American Institute of Certified Public Accountants
AT	Codification of Statements on Standards for Attestation Engagements
AU	Codification of Statements on Auditing Standards
CFO Act	Chief Financial Officers Act
FASB	Financial Accounting Standards Board
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
GAO	U.S. General Accounting Office
GASB	Governmental Accounting Standards Board
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act *(also known as the "Results Act")*
OAI	Other Accompanying Information *(also known as "other supplementary information)*
OMB	Office of Management and Budget
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

Preliminary Views On Eliminating the Category "Required Supplementary Stewardship Information"

Summary

1. FASAB proposes to eliminate the category of information known as Required Supplementary Stewardship Information (RSSI), a category unique to federal financial reporting. FASAB believes that reports which present stewardship information as RSSI create avoidable problems for users and for auditors. Now that the American Institute of Certified Public Accountants (AICPA) has recognized FASAB as the body that promulgates generally accepted accounting principles for the U.S. Government, FASAB believes it is desirable to use categories that are widely understood by the broader accounting profession. The Board believes that using the three traditional categories of information discussed in auditing standards will help clarify the information provided to users of federal financial reports. Two members oppose the proposal. They believe that it would be desirable to retain a separate category for information needed to meet the objectives of federal financial reporting on which assurance is desired, but which is not historical financial information.

Background

2. Required Supplementary Stewardship Information (RSSI) is a category unique to federal financial reporting. The category currently encompasses diverse items of information, including:
   - Stewardship Responsibilities (SFFAS 5, 8, and 17)
   - Stewardship Land and Heritage Assets (SFFAS 6 and 8 as amended)
   - Stewardship Investments (SFFAS 8)
   - National Defense Property Plant and Equipment (SFFAS 6 and 8 as amended).[1]

3. The RSSI category was used by federal agencies in their fiscal year 1998 and 1999 general purpose federal financial reports. FASAB has monitored the implementation of the new federal accounting standards and the reporting of RSSI in those reports and is concerned that its objectives in creating RSSI are not being met. (For more background on RSSI, see Appendix A for excerpts from SFFAS 8.)

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[1] Statements of Federal Financial Accounting Concepts and Statements of Federal Financial Accounting Standards are available at www.financenet.gov/financenet/fed/fasab/concepts.htm

Proposed change: eliminating the RSSI category

4. FASAB proposes to eliminate the RSSI category. FASAB is concerned that reports that present stewardship information as RSSI create avoidable problems for users and for auditors. The Board does not contemplate eliminating any existing requirements to present information in federal financial reports as a result of this change. Items now categorized as RSSI would be reclassified among the three categories used in generally accepted accounting principals (GAAP) and Generally Accepted Auditing Standards (GAAS) since 1979, when the category "Required Supplementary Information" was created in connection with Statement of Financial Accounting Standards 33, *Financial Reporting and Changing Prices*.

5. These three categories are:

   - The basic financial statements and the associated notes that are regarded as an integral part of the financial statements.[2] FASAB refers to this information as "basic information." Basic information is that which is essential for financial statements to be presented in accordance with GAAP. In the context of an audit of financial statements conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and (GAAS), the auditor expresses an opinion (provides positive assurance) that this information is fairly presented in accordance with GAAP.

   - "Required supplementary information" (RSI) as that term is used in section AU 558 of the codification of GAAS published by the AICPA. RSI is information, specified by a Board that promulgates GAAP, which is not *a part of* the basic financial statements and notes, but which *should accompany* the basic information. The auditor performs certain procedures specified by auditing standards for RSI (see appendix B), but does not express an opinion or other assurance regarding RSI in the context of an audit of the basic financial statements. An auditor may, however, be engaged to audit or to

[2] GASB has exposed for comment proposed criteria for information to be provided in footnotes. The proposed criteria are in paragraphs 30-33 of its June 30, 2000 exposure draft titled *Certain Financial Statement Disclosures.* This exposure draft is available from GASB or at www.gasb.org. GASB's actions in that and other projects would not directly constrain FASAB, but could help shape the broader professional framework in which accountants and auditors work. FASAB takes no position regarding the applicability of GASB's proposed criteria for notes for federal accounting. FASAB will monitor GASB's on-going projects and will consider the implications, if any, for federal accounting in the context of future FASAB projects.

perform other agreed upon procedures on RSI as an extension of the work required for an audit of the basic financial statements.

- Other information that may accompany the basic information and RSI, but which is not required by a Board that promulgates GAAP as either basic information or RSI.[3] FASAB refers to this kind of information as "other accompanying information" (OAI). The auditor does not express an opinion or other assurance regarding OAI in the context of an audit of the basic financial statements (see appendix B). An auditor may, however, be engaged to audit or to perform other agreed upon procedures on OAI as an extension of the work required for an audit of the basic financial statements.

6. These categories of information need not constrain or define the structure of federal financial reports. Report preparers can avail of a variety of formats, methods, and locations for presenting information within the context of these categories of information, as long as there is a clear distinction between audited information and unaudited information. FASAB uses the words "notes," "footnotes," and "disclosure" merely to indicate that information is basic information, essential to presentation in accordance with GAAP, not to indicate the location or format of the information.

7. One concern raised by the use of the RSSI category is that users may pay insufficient attention to some important information because it is called "supplementary" and may be confused by fragmented reports. The Board believes this impedes users' understanding and reduces the credibility of federal financial reports. Inappropriate use of the RSSI category may invite suspicion of reports in which information that may be as significant as the basic financial statements is labeled "supplementary," and may or may not be audited. Both academic research and practical experience suggest that the way some people use or weight financial data in their decisions can be influenced by the location and format in which the information is reported.

8. The Board believes that these problems can be reduced if RSSI that meets the criteria to be deemed "basic" is classified as basic information and reported on the

[3] For example, GAAP for private entities—unlike GAAP for governmental entities—does not require financial statements to include management's discussion and analysis of the statements. A corporation may, however, publish with its financial statements the discussion and analysis, including forward-looking information, which it is required to file with the Securities and Exchange Commission. In this case, management's discussion and analysis would be regarded as other accompanying information.

face of the basic financial statements or in the associated notes. Other items now categorized as RSSI can appropriately be reported as required supplementary information (RSI). The Board has not developed criteria for basic information or conceptual guidance on the appropriate use of the RSI category. The Board may do so in connection with subsequent projects to recategorize items now classified as RSSI. Ultimately, however, decisions on classification of specific items—like decisions on recognition and measurement—must be made and explained in the context of each specific standard. The Board believes that the proposed change can enhance the prominence of information that needs to be prominent and will enhance the financial report by integrating information essential to meeting the reporting objectives.

9. The Board also was influenced by the fact that auditing standards do not discuss RSSI.[4] Auditors therefore do not know what to do with respect to information in this category without consulting federal publications such as OMB's bulletin 01-02 on audit of federal financial statements (the "audit bulletin"). OMB's audit bulletin implements the audit provisions of the Chief Financial Officers (CFOs) Act of 1990, as amended; the Government Management Reform Act (GMRA) of 1994; and the Federal Financial Management Improvement Act of 1996. It provides guidance on defining the scope of an engagement to audit federal financial statements. OMB's audit bulletin is the source for the current practice of treating RSSI as required supplementary information. This reliance on federal publications to define the RSSI category means that even sophisticated users are not likely to understand fully the auditor's distinctions among the categories of information and that the audit coverage is subject to change as the guidance from OMB is reissued periodically.

10. The auditor applies limited procedures to RSI as specified in section AU 558 of AICPA's codification of generally accepted auditing standards. The auditor must comment if he or she finds that the information is not presented in accordance with prescribed guidelines. The auditor's opinion on the financial statements per se would **not** be impacted by any detected inaccuracies in the RSI, (or in RSSI because the audit bulletin instructs the auditor to treat it as RSI), but the auditor

[4] AICPA issues generally accepted auditing standards; GAO issues government auditing standards, which incorporate by reference AICPA standards unless specifically excluded. Paragraph 23 of the *Implementation Guide* for SFFAS 7 acknowledged that the RSSI category did not exist in audit standards:

> …Until such time as the GAO and OMB have defined the audit procedures for RSSI and Government Auditing Standards have been modified, the existing categories should be used. Operationally, similar field work results can be achieved under the existing standards by defining information as RSI or OAI as appropriate, with any additional desired agreed upon audit procedures specified by OMB in its instructions regarding audit of these financial statements…

would explain material departures from established guidelines or inaccuracies in the RSI or RSSI that were detected as a result of applying the procedures specified by AU 558.

11. Now that FASAB has been recognized by AICPA as the body that promulgates generally accepted accounting principles for the U.S. Government, FASAB believes it is desirable to use categories that are widely understood by the broader accounting profession and that it is inappropriate to leave open the issue of audit coverage for significant elements of a GAAP-based financial report.

Issues Raised Regarding the Proposed Change

Appropriate Frameworks

12. Some have suggested that the Board is limiting its options by reverting to the traditional three-category framework discussed in paragraph 5 (i.e., "basic," "RSI," and "OAI"). Nonetheless, the Board believes that the objectives of federal financial reporting can best be accomplished within the framework of categories of accounting information established by the accounting and auditing professions before FASAB created RSSI. The Board acknowledges that federal financial reporting is potentially broader in scope than the financial statements currently defined by GAAP for entities in the private sector and for state and local governments. This may require special guidance on how to apply existing AICPA standards. FASAB, however, is not the source for guidance on such questions as whether to use generally accepted auditing standards or attestation standards to examine and report on a particular item of information.

13. FASAB's role is simply to define what information is essential to fair presentation in accordance with GAAP and what is required supplementary information. The AICPA, the Accounting and Auditing Policy Committee (AAPC), OMB and GAO will be able to provide suitable guidance so that preparers and auditors can deal with the requirements of federal GAAP if items now designated RSSI are reclassified as basic information or RSI.

14. The Board and its staff have consulted with some audit professionals and convened a panel of auditors to discuss this proposed change. While different auditors may come to different conclusions, preliminary indications are that some audit professionals believe additional guidance may be needed, but that the first step in reaching a workable solution is for the Board to provide a clear statement of the accounting standards. In response, the audit community would consider whether and how it could be associated with the resulting information. For

example, if the information demands that professional tools be developed – such as guidance on determining materiality for non-financial information – then the audit profession would work to develop such tools.[5] The Board would be a participant in the work of the audit profession and believes that an appropriate solution is attainable.

Clarity of Status and Audit Coverage

15. In the debate over use of the traditional three-category framework, most members are concerned that in using the RSSI category, the Board fails to communicate clearly about the status and reliability of some vital information included in federal reports. This is counter to the Board's objective to enhance effective communication among a broad spectrum of interested parties. Such parties include internal government managers and executives, a variety of oversight organizations, internal and external accountants and auditors, as well as industry, academia, taxpayers, and the general public.

16. Effective communication regarding financial matters requires a common framework and clear, concise terminology that can be readily understood by all interested parties. The traditional three-category framework and terminology are useful because interested parties readily understand the framework and terminology based on years of experience in educating, accounting, auditing, and using such long-standing and well-understood and communicated concepts, models, terminology, and related standards.

17. While an excellent underpinning, the traditional accrual accounting framework and terminology long used by business enterprises have not been universally workable for all financial matters of interest and import to the Federal community and other interested parties. For example, the Federal community retains a relatively unique and overriding focus on key budget matters. As a consequence, the FASAB refined and expanded the traditional accrual accounting framework and related terminology to address a variety of Federal financial matters, including additional reporting and disclosures related to budgetary matters.[6]

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[5] Some audit professionals believe that the "Attestation Standards" would provide a more appropriate vehicle for expressing an opinion on RSSI. However, others suggest that the "Auditing Standards" would permit a single auditor's report on the entire GAAP based package and that, with additional guidance, these standards would serve to accomplish that goal.

[6] The traditional accrual or "maintenance of financial capital" model has been adopted and adapted for not-for-profit entities and for states and local governmental entities. Thus, budgetary reporting has had a place in state and local governmental accounting for many years. The name, nature, and number of basic financial statements continue to evolve in each accounting domain. For example, the FASB

18. Fundamental professional concepts include the grouping of external report information into three key categories: (1) basic information (financial statements and footnotes), (2) required supplementary information (RSI) and (3) other accompanying information (OAI). This categorization is particularly critical because it not only establishes a common framework and terminology for accountants who prepare financial statements and for auditors who audit financial reports but also for report users. During its first 10 years, the Board was confronted with a variety of challenges in establishing an entire suite of new Federal accounting standards. In the area of financial reporting, the Board followed a strategy of inventing a new fourth category to extend the traditional business reporting model concepts.

19. In the process of reviewing a variety of unresolved RSSI matters, the Board has reevaluated the strategy of adding the fourth reporting category to the traditional three-category framework. The Board has determined that, while certain matters are unique to the Federal arena, such matters can and should be most effectively communicated to impacted parties through the long-standing, well understood, three-category reporting framework used in traditional business and state/local government reporting. Simply stated, the Board has determined that in this area, it is more practical and useful to fit the Federal government's unique matters into the traditional three-category structure rather than pursue a strategy of inventing an entirely new structure.

20. It appears more practical and productive to communicate in a well understood language rather than invent a new dialect and expect all interested parties, who know the original language, to adjust to the new dialect. While some slight adjustments may be required in certain rare instances, the Board intends to fit the Federal government's unique financial matters into the well established, well understood, easily communicated, traditional, three-category framework.

21. While the Board proposes to use the three-category reporting structure, the Board continues to believe that certain basic accrual concepts and practices are not readily workable, or are not sufficient, for a variety of Federal government

recently added a new Statement of Comprehensive Income, while GASB recently added new consolidated entity-wide statements to the package of required basic statements. GASB also now permits an optional method for infrastructure accounting that, in a limited way, may be said to add concern with maintenance of physical capital to the traditional maintenance of financial capital model. Similarly, FASB and GASB often require new note disclosures. In each case, however, these new reporting requirements have been added in the context of the same three categories of information used by the accounting profession since 1979, as discussed in paragraphs 4 and 5.)

matters. In that regard, the Board plans to continue to deliberate and issue standards on a variety of possibly unique governmental activities, such as Federal natural resource matters.

22. Some have suggested that RSSI would disappear among the notes to the financial statements. The Board does not intend to designate that status for the information. Rather, preparers would be free to place information appropriately within the package of basic information, and the Board might promulgate standards to require them to do so. For example, the Consolidated Financial Statements (CFS) of the United States Government for FY1999[7] placed the Stewardship Report immediately after the principal statements[8] and before the notes. This practice would continue to be acceptable if the Board designated all the Stewardship information as basic information.

Issues Associated with the Suggested Use of Attestation Standards

23. Most Board members believe that the alternative approach described in this document (see page 9)--which would have the auditor report on RSSI items under "attestation" standards--would lead to overly long, disjointed, and confusing auditor's reports. While FASAB does not set auditing standards, it must consider the impact of its reporting standards on what the auditor does. Invoking the attestation standards might lead to a series of auditor's reports on various types of stewardship information (e.g., Heritage Assets, Stewardship Land, National Defense PP&E, Social Insurance, etc.). Most Board members prefer a simpler, more concise audit report, such as one would expect under the traditional reporting model.

24. If, after considering comments on this Preliminary Views document, the Board concludes that the RSSI category should be eliminated, specific decisions on how to reclassify items now designated RSSI will be exposed for comment in subsequent exposure draft Statements of Federal Financial Accounting Standards. No change in the status of such items would become effective until the resulting Statements of Federal Financial Accounting Standards became effective.

[7] This report is available at www.fms.treas.gov/cfs/

[8] The CFO Act uses the term "principal financial statements;" AICPA literature uses the term "basic financial statements;" FASAB has customarily used the terms interchangeably.

Alternative Views

> *Individual members sometimes choose to express an alternative view when they disagree with the Board's majority position on one or more points in a proposed standard. The alternative view describes and explains the disagreement. The ideas, opinions, and statements in the alternative view are those of the individual member alone. However, the individual member's view may contain general or other statements that are not in conflict with the majority position, and may in fact be shared by other members.*

25. Two members have concerns about the proposed elimination of RSSI. Both members observe that existing requirements in the federal financial reporting model transcend the audited historical financial statements *per se*. Federal accounting principles require presentation of extensive information that is either nonfinancial, or is financial but not historical.

26. They note that FASAB created the RSSI category in response to the perceived need to deal with aspects of the federal financial reporting environment and objectives that seemed to imply a need for reporting a variety of information in a unique reporting model. Some of these aspects include the Government's role in assuming obligations, making investments, providing for national defense, and acting as steward of national treasures and resources on behalf of the national society.

27. FASAB also was influenced by technical considerations, including availability of financial measures, perceived benefits and costs, and the appropriate nature and extent of audit procedures to be applied to stewardship information. The Board contemplated that special guidance might be needed for the auditor's review of some stewardship information. Because FASAB does not establish audit procedures, it did not address audit when RSSI was created, but it recognized the challenges for auditors implied by innovative federal accounting standards. Evolution in financial reporting can imply the need for evolution in auditing as well. The development of a separate body of attestation standards is a relevant advance in the auditing literature, which complements the evolution in federal financial reporting.

28. Although these members have similar views and goals, they emphasize slightly different factors and approaches. Those differences are discussed in the following paragraphs.

First Statement of Alternative Views

29. One member believes that Stewardship information is an integral part of federal financial statements and should be reported in a way that highlights its importance and distinguishes it from traditional historical financial information. The unique nature of stewardship information justifies a special reporting section and a thoughtful approach to providing assurance. Forcing this information into a conventional presentation and auditing model will diminish its prominence in the financial statements and result in confusion over what audit approach to apply.

30. This member notes that the reporting of stewardship information in the Required Supplementary Stewardship Information (RSSI) category has been in place for only two years. FASAB created the separate category for three reasons:

    (1) To highlight the importance of the information,

    (2) To facilitate experimentation in presenting and reporting this non-traditional yet important information, and

    (3) To distinguish the information for audit purposes.

31. This member believes that, in the very short history of the RSSI category, significant progress has been made in meeting each of these objectives. Eliminating the category at this point would result in outcomes running counter to the FASAB's original objectives - - such as diminished importance of stewardship information and confusion about the level of assurance auditors could provide. Further, and of no less significance, is the fact that no evidence has been presented to the FASAB to support the position that the category is either confusing or being misinterpreted. For these reasons, it is this member's view that RSSI should not be eliminated and certainly not at this time, very early in the process of reporting stewardship information.

FASAB has a tradition of innovation not bound by existing GAAP

32. In developing accounting standards FASAB has always taken a fresh and creative approach - - an approach not bound by existing GAAP for other entities. Proponents of the proposal to eliminate RSSI argue that since FASAB is now a

GAAP-setting body, it is inappropriate to establish reporting categories that are not widely used in private sector or state and local government financial statements. Because the objectives of financial reporting for the Federal Government are different from the objectives of financial reporting for other sectors, conforming to existing GAAP has never been and never will be a criterion in developing accounting standards for the Federal government. Departing from the Board's past record of innovation by conforming non-traditional information into a traditional accounting model would be a step away from developing a useful federal financial reporting model.

33. The Board's past record of innovation, where it departed from existing GAAP, is evidenced in SFFAS 4, *Managerial Cost Accounting Concepts and Standards.* To meet the Federal financial reporting objectives of "Operating Performance" and "Systems and Control," FASAB went beyond existing GAAP to require federal agencies to accumulate and report the cost of activities on a regular basis for management information purposes. This represents a thoughtful and innovative approach unique to federal GAAP, and provides useful information to readers.

Federal accounting standards require reporting of non-traditional information

34. Federal accounting standards require the reporting of stewardship information that is non-financial, or financial but not historical, and is composed mostly of information that cannot be adequately expressed in the principal financial statements. Some of the information, most notably stewardship land and heritage assets, is expressed in non-dollar terms. Other stewardship information (such as financial projections or other financial analyses) may be quantified in dollar terms, but does not fit the criteria for placement in the traditional financial statements. This nontraditional information, whether or not it meets the criteria for an asset or liability, is essential in meeting the objectives of federal financial reporting.

35. Because the unique nature of stewardship information does not allow it to fit neatly into a conventional reporting model, footnotes might become the only way to report the information if it had to be blended into other parts of the financial report. Footnotes, however, are not an adequate alternative to the kind of special reporting envisioned and now used for stewardship information. Users may be less able to find the information if it is in footnotes, less inclined to read the footnotes, and less able to see the relationships among different but related types of stewardship information. They may also view information in footnotes as less important than information in a special stewardship section. For auditors, the non-

financial information would be subject to judgments about financial statement materiality with a resulting unknown level of auditing.

Eliminating the RSSI category after only two years would be premature

36. In SFFAS 8, *Supplementary Stewardship Reporting* (June 1996, effective for FY 1998), FASAB adopted an innovative approach to reporting stewardship information in the RSSI category. At the time SFFAS 8 was adopted, FASAB believed that "…these stewardship items warrant specialized reporting to highlight their importance and to portray them in additional ways than provided by financial accounting." The separate category approach was taken to highlight the importance of this information and incorporate it as an integral part of federal financial statements.

37. The innovative approach defined in SFFAS 8 is still the most appropriate way to report this information. There is no hard evidence to support concerns that the RSSI category is confusing or is not being given sufficient attention. Moreover, stewardship reporting only became effective for FY 1998. The standard relating to social insurance - - arguably one of the most significant components of stewardship reporting - - becomes effective for Fiscal Year 2000 reports, which are due to be published by the first quarter of 2001. Subjective opinions about the effectiveness of the RSSI category are based on only two years of experience at a time when appropriate audit guidance was evolving. This is hardly sufficient time to adequately assess a new concept in financial reporting.

An approach to assurance is evolving

38. At the time FASAB created the RSSI category, the Board was concerned about the level of assurance that auditors could provide. Since the RSSI category and the information were non-traditional, no clear audit guidance existed to determine the level of assurance in regard to the information. The Board believed that stewardship information should receive "more audit scrutiny" than Required Supplemental Information (RSI), but that providing assurance using the same methods that apply to the basic financial statements "may not be appropriate."

39. The new category was created with the understanding that OMB would work with GAO to determine the type of assurance it would receive. Initially, OMB published an audit bulletin that called for auditors to express an opinion on RSSI pursuant to auditing standards. Some auditors expressed concern about their ability to provide this assurance, so OMB and GAO agreed to adopt the minimal RSI auditing requirements (as described in professional auditing standards), but

also agreed to work together to consider options for providing a higher level of assurance. This culminated in an exposure draft audit bulletin that called for the auditor to examine RSSI using the AICPA's Attestation Standards to provide opinion level (positive) assurance. OMB withdrew this proposal in deference to FASAB when the Board tentatively decided to eliminate the RSSI category, and because responses to the proposal indicated that auditors still had unresolved concerns about it.

40. Progress in developing an appropriate approach to assurance is being made. The options considered to date have served to better inform the discussion about stewardship assurance. Recently OMB and GAO met to advance this issue further by discussing specific audit approaches that might be appropriate to various stewardship activities. In addition, the panel of auditors convened by FASAB to discuss this issue was helpful in gaining further insights into this issue. All the auditors on the FASAB panel agreed that specific guidance in the form of criteria to audit against and to assess materiality would need to be provided to auditors before an opinion could be rendered. More time is needed to work out the best audit approach to this information and to assess the costs and benefits associated with each approach. There is no reason to assume, beforehand, that this will mean reclassifying the information as either basic or RSI.

Different types of stewardship information require different levels of assurance

41. A "one size fits all" approach to providing assurance over stewardship information is not the best approach. The nature and level of assurance prescribed should be tailored depending on the financial reporting objective intended to be met by reporting the stewardship information. For example, the reporting of heritage assets is intended to meet both the "Stewardship" and the "Systems and Control" objectives. Consequently, there are a number of attributes about the information that are of importance, such as the quantity, condition and safeguarding of these assets. A tailored audit approach may provide independent assurance on the internal controls over the condition and safeguarding of the assets to provide greater and more useful information to users. Alternately, under the majority's proposal, providing assurance under GAAS presumably would focus on whether the quantity was "fairly stated." This approach would not be sensitive to the other, arguably more important, attributes of condition and safeguarding.

Eliminating the RSSI category now may cause unnecessary audit-related problems

42. Eliminating the RSSI category because audit guidance has not yet been developed would be premature and may create unnecessary audit-related problems. Based on the Board's discussions thus far, most of the items now considered RSSI would likely be moved to "basic information" (principal financial statements and footnotes). Auditors are required to follow GAAS when auditing financial statements. Under current auditing guidance, the auditor renders a single opinion on the financial statements taken as a whole (which includes the footnotes).[9] Because many of the RSSI items are measured differently than items in the financial statements (e.g., units vs. dollars), or are prospective rather than historical in nature, it will be difficult, if not impossible, for auditors to make materiality judgments in planning the audit and in reaching an opinion on the financial statements taken as a whole. Under current auditing standards, clearly reporting the audit results will also be a challenge, particularly if the audit discloses problems with the information. The issues of how to determine materiality, and render and express an opinion covering unlike items (dollars, units, and projections) are fundamental and complex, and would need to be addressed by the audit profession.

43. These fundamental problems may be avoided by using an alternative approach that retains the RSSI category. The AICPA developed separate Attestation Standards specifically for assurance work on the type of information currently in the RSSI category (i.e., non-financial information and projections). Use of a separate category like RSSI would allow auditors to test and report on the information under standards that were created for that purpose. Although specific criteria and materiality guidance would still need to be developed, an RSSI/Attestation Standards model does not raise fundamental audit or reporting issues that would first need to be addressed by the audit profession.

[9] An AICPA taskforce working on a new audit guide for state and local governments has discussed with GASB the possibility that the guide will provide for multiple reports on designated components of the package of basic financial statements required by GASB Statement 34. That guide has not yet been published, however, and it is not clear what implications—if any—such a development might have for audits of federal financial reports based on different accounting standards. The federal reporting model, for example, does not include fund financial statements per se (though disclosures about dedicated collections are required). Also, under current standards federal financial reports must include more non-financial and non-historical information than is required by GASB standards.

Audit implications should be understood and resolved before standards are issued

44. While FASAB does not set auditing standards, it has a responsibility to consider the audit implications of its actions. This is especially true when the proposed standard or action relates to nontraditional information in financial reports. The FASAB's experience with deferred maintenance reporting is one example of why the audit implications need to be fully understood and addressed before a standard is issued or amended. (The Board amended its standards requiring deferred maintenance information to be reported in footnotes, because the auditability of the information being reported wasn't fully considered when the initial standard was issued.)

45. In another example, the GASB established a requirement that certain “Y2K” disclosures about preparations to assure computer systems would function properly after December 31, 1999 be included in the footnotes of state and local government financial statements. The AICPA issued guidance cautioning auditors that the disclosures might not be verifiable and indicated that opinion qualifications might be appropriate. Many opinion qualifications did result. GASB eventually changed the presentation of Y2K disclosure requirements. These examples demonstrate the need for the accounting standard setters and the audit profession to work together in the development of standards.

Conclusion

46. The RSSI category provides a useful vehicle for prominently displaying information essential to meeting the objectives of federal financial reporting. This member believes it is premature to eliminate this category simply based on subjective and unsupported views that the category is not well understood and that appropriate audit guidance has not yet been developed. The RSSI category has been in use for only two years and there is no analytical basis or solid evidence to eliminate the category at this point. OMB and GAO are making progress in developing innovative approaches to providing assurance about the unique information contained in the RSSI category. The Board should retain the RSSI category to continue to prominently display stewardship information in federal financial statements.

Second Statement of Alternative Views

Another member objects to the proposal to eliminate the RSSI category for the following reasons.

Eliminating RSSI is premature

47. The Member believes that the Board' s proposal to eliminate this fourth category of reporting is premature. By taking the actions it proposes the Board may:

    - Jeopardize the successful Stewardship reporting model and constrain the scope of the Board's existing and future standards.

    - Lead to uncertainty as to the degree of audit assurance obtained and, possibly, to unnecessary audit costs.

48. The Board should take the time to carefully study the potential consequences of eliminating RSSI and should consider the application of the Attestation standards to the non-traditional information in this fourth category of reporting. During the course of this study it should consult with the auditing profession to assure a satisfactory audit result. By not taking the time to study and consult, the Board assumes the unnecessary risks pointed out above. While study and consultation go on, OMB and GAO can continue to provide needed guidance to auditors.

49. The Board will not hasten the solution of the problems it now thinks it needs to solve by deciding on a three-category framework, and on what is basic information and what is not. It may well be starting the auditing profession down the wrong road, and limiting FASAB's participation in deciding the basic assurance requirements can have adverse consequences. Its proposal may actually extend the total elapsed time required to reach a satisfactory conclusion.

FASAB'S unique role among standard setters permits it to play a role in assurance

50. Consistent with the purpose of the CFO Act, FASAB has defined its standard-setting role more broadly than other standard setters. The basic objectives of federal financial reporting include "Budgetary Integrity," "Performance Measurement," "Stewardship," and "Systems and Controls." Consequently, the information federal accounting standards must deal with includes non-financial and non-historic information. This information extends well beyond the parameters of private sector financial reporting. In addition, FASAB acts as the standard setter for what is essentially a single entity – a single government made

up of controlled agencies and departments. This enables the Board to participate more fully with management than other standard setters do in determining the type of assurance needed for the information it requires. Recognition as a GAAP standard setter does not require the Board to eliminate its fourth category of reporting, nor does it substantially limit the Board's participation in determining the assurance required for non-traditional information. In a way similar to that provided by RSSI, the Attestation standards provide flexibility to pair the assurance the Board believes is needed with information it requires.

The successful federal reporting model may be jeopardized and the Board's future standards constrained

51. The Stewardship Information now being provided has been improving each year in response to Board standards that permit enough flexibility to tell each agency's story. Most of the agencies with significant Stewardship accountabilities now report them in a separate Stewardship section of the financial report.[10] The Consolidated Financial Statements (the CFS) does the same. The improving content and this emphasis given to Stewardship have been well received by users of federal reports.

52. There is no substantial evidence that the existing reporting model causes confusion. Observable confusion **was** occasioned by guidance in an OMB audit bulletin (later withdrawn) to apply auditing standards for financial statements to Stewardship information. But the fault was the wrong assurance standards, not the separation of the Stewardship information. Other confusion that may now exist is also not the fault of separating the Stewardship information. The word "Supplementary" in RSSI ("Required Supplementary Stewardship Information") may cause some users of federal reports to believe that RSSI information is second class information. Titling the information "The Stewardship Report" cures this semantics problem.

53. There is an extraordinary difference between Stewardship information, both in scope and auditability, and the information included in conventional financial statements. Stewardship information now includes Federal Land Resources;

[10] Most agency financial statements are available at the agency's site on the World Wide Web. As noted earlier, the CFS is available at www.fms.treas.gov/cfs/. Links to various agency financial statements are available at www.financenet.gov/financenet/fed/docs/docsstmt.htm and at www.financenet.gov/financenet/fed/docs/docsarpt.htm.

Some agencies issue an "Accountability Report" that combines several reports, including the audited financial statements required by the CFO Act as amended and the performance report required by the GPRA. Links to such reports are available at www.financenet.gov/financenet/fed/docs/docsbrpt.htm.

Heritage Assets; Investments in R&D, State and Local Infrastructure; Human Capital; Social Insurance; Defense Weapons Systems; and the Current Services Assessment. Much of this information is drawn from non-accounting records and some of it relies on forecasts. There is no question that the available dollar information from accounting systems is insufficient to tell the Stewardship story.

54. The Board's proposal to adopt a three-category reporting model may jeopardize the Stewardship model and constrain the scope of the Board's standards. The three-category reporting model leads toward the amalgamation of the non-traditional information with the financial statements and the application of financial statement auditing standards to all the information presented.

55. The Board's assertion that preparers would be free to place basic stewardship information within the package of basic information may be accurate in so far as it goes, but the implication that the reporting model would not change is misleading. The use of auditing standards for financial statements inevitably will influence the placement of that information and, therefore, much of it is likely to be lost in the footnotes to the financial statements. The Member believes that the Board, in its present state of mind (as indicated by its concerns about RSSI confusion and the use of the Attestation standards) is not likely to require separate presentation of Stewardship information or encourage the use of the Attestation Standards.

56. If financial statement auditing standards become applicable to all the information presented, the Board is likely to pare down the scope of its Stewardship standards toward the more limited traditional information provided in the private sector. The standards could also be downgraded for assurance purposes or withdrawn. For example, as it deals with each of the RSSI standards, the Board may discover situations where auditing standards for financial statements don't fit. In these situations, the Board may be required by the public accounting profession to weaken its standards.

An even more robust reporting model may be appropriate

57. An even more robust reporting model with more diverse components may be appropriate to accommodate additional information the Board has yet to deal with. There is much additional information contemplated by the Board's Concepts Statements that the Board has not addressed. This includes <u>Natural Resources</u>; <u>Systems and Controls</u>; <u>Performance Measures</u>; and <u>Long Range Budget Forecasts</u>. Questions that need answers are (1) where in the Accountability Reports should this information be placed, and (2) what kind of assurance should be provided?

The argument that the Attestation standards should be used to provide assurance for this new information is perhaps even more compelling than it is for what is already in the Stewardship category. The Board faces the assurance question now with respect to its newest standard for a Statement of Social Insurance because that statement is based on 75-year forecasts. Before taking action to eliminate the fourth category of reporting the Board should carefully consider all the information called for by the *Objectives of Federal Financial Reporting*. It should decide what is fundamentally financial statement information and what is not, and what the reporting model for that information should look like. Here also, it should look at the applicability of the Attestation standards and help provide appropriate guidance for their use.

The attestation standards offer the best alternative to RSSI

58. A three-category framework tends to preclude the use of the Attestation standards for assurance, if only because the information to which it would be applicable is not clearly separated from that subject to the auditing standards.

59. Auditing standards for financial statements are not optimal for Stewardship information or for the other non-traditional information mentioned above because they are designed primarily for historical financial information. If those standards are used, some auditors will not know how much of what to do, others will over-do their auditing to be on the safe side, and still others will give the information little attention because it is not the stuff of financial statements. Further, without a clear definition of auditing objectives, auditors may be inclined to pressure preparers to include unnecessary information. Preparers, on the other hand, may conclude it is safer to report only the minimum necessary to satisfy their auditor. One likely result will be uncertainty as to the level of auditing for a given agency and inconsistency between agencies. Another possible result may be overuse of scarce auditing resources and unnecessary audit costs.

60. The Board needs to engage the auditing question and consider how the Attestation standards might be applied. The Board does not set auditing standards but, working with the auditing profession, it could:

    - Decide what information is subject to the Attestation standards and define the "levels of assurance" needed for that information from among those offered under the Attestation standards, i.e. examination, review or agreed upon procedures.

- Define “fair presentation” for this non-financial statement information. It might do so in terms of the relevance of the information provided to the achievement of each of the objectives of federal financial reporting. Alternatively or additionally, it might define fair presentation in terms of the achievement of the mission of the agency and the planning and control responsibilities of the agency.

61. The Board has defined preparer materiality in SFFAS No. 3, and that definition extends to all financial information included the report; i.e. it is not limited in its application to the financial statements and notes. With this definition of preparer materiality, the Board is in position to help the auditing profession determine auditor materiality for non-financial statement information in the context of the Board’s definition of “fair presentation;” e.g., the Stewardship Report taken as a whole, rather than the Financial Statements taken as a whole.

62. The Attestation standards provide model reports for some of the various kinds of information these standards cover. With that start it should be possible, by working with the AICPA, OMB, and GAO on all the matters mentioned above, to develop one or more reporting formats for the non-financial information that communicate satisfactorily the assurances being provided. U.S. Government audit reporting requirements are already more extensive than those in the private sector. Additional reporting on attestation work should not be confusing. Rather, it should provide needed clarity about assurance levels that the traditional audit report for financial statements would not provide.

The member’s conclusions

63. Repealing RSSI is premature. A four-category reporting model is probably necessary to deal with existing federal accounting standards. The fourth category could be titled the “Stewardship Report.” The Board should take the time to study the appropriate reporting model and the applicability of the Attestation standards. It should work closely with the AICPA, OMB and GAO. If the Board proceeds as it now proposes, without taking the time to study the issues more thoroughly, it could have unfortunate consequences. Finally, moving forward without additional study and consultation may not shorten, but may lengthen, the elapsed time to resolve any legitimate concerns in a satisfactory fashion.

Questions for Respondents

1. Should the RSSI category be eliminated? Why?

2. What would be the impact (if any) of eliminating the RSSI category on preparers of federal financial reports, and on users of those reports?

3. What would be the impact (if any) of eliminating the RSSI category on the ability of federal financial reports to address the objectives described in SFFAC 1, *Objectives of Federal Financial Reporting?*

4. What would be the impact (if any) of eliminating the RSSI category on audits required by the CFO Act, as amended, and the nature of assurance provided by them?

5. Would eliminating the RSSI category cause problems for auditors that are not encountered in audits of private sector or state and local government financial statements (e.g., assessing materiality or dealing with projections)?

6. If so, which categories or items of RSSI would cause audit problems? What kinds of problems?

7. If FASAB reclassifies all or most RSSI as basic financial information, would existing auditing standards need to be amended to cope with some parts of it? If so, please explain.

8. Would a federal reporting model in which a fourth category exists, either called RSSI or "stewardship information," for which the auditor would provide assurance under attestation standards, confuse the user of the auditor's report or add clarity?

9. Might stewardship information be audited under generally accepted government auditing standards (GAGAS) without affecting the GAAS opinion on GAAP financial statements?

10. Are there other implications, considerations, pros or cons to consider? For example, would there be implications for future standards-setting by GASB, and FASB that should be considered?

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Appendix A: Excerpts from SFFAS 8

The Nature of Stewardship Reporting

19 The Board, recognizing the Federal Government's size, complexity, diversity, and impact on others, has determined that the aforementioned information is needed in addition to that included in financial statements.

20 Such information may not link directly with the basic financial statements because the data to be reported may be other than financial, for example, physical units or projections. It will supplement the basic financial statements.

21 This information, as indicated in each of the standards, will be designated as **required supplementary stewardship information (RSSI)** for the consolidated financial statements of the Federal Government and of the entities who have stewardship responsibilities over resources identified earlier in this document. The Board has chosen to call this RSSI to distinguish it from "required supplementary information" (RSI), for which audit responsibilities are prescribed in existing professional literature. The Board believes that OMB and GAO should establish and cause the implementation of the audit responsibilities for RSSI.

Excerpt from SFFAS 8 Basis for Conclusions on “The Nature of Stewardship Reporting”

111 The exposure draft presented the Board's approach to reporting in a manner other than is done in the basic financial statements for those items that it has categorized as stewardship items. As the Board stated in the Introduction and Background chapter of this Statement, it believes that these stewardship items warrant specialized reporting to highlight their importance and to portray them in additional ways than provided by financial accounting. The Board designated a new category of reporting to highlight the unique nature of stewardship reporting, Required Supplemental Stewardship Information (RSSI).

112 Some respondents believed that, although reporting on stewardship items might be warranted, a separate manner of reporting might not. They believed that stewardship reporting could be accommodated either within the basic financial statements, for example, as a note, or as Required Supplemental Information (RSI). They did not see the need for the separate category of RSSI.

113 The Board, however, believes that a new category for reporting on stewardship items is more appropriate. If stewardship information were required to be reported in a note to the basic financial statements, it would be subject to the same level of audit scrutiny as that of the basic financial statements. Since some of the stewardship information is non-financial, for example, physical units, and other data is based on projections or assumptions, the same degree of audit coverage as that of the basic financial statements for these items may not be appropriate. Such data is not drawn directly from the financial records. Thus reliance on financial records for audit backup would not be feasible.

114 On the other hand, the Board believes that certain stewardship information should receive more audit scrutiny than it would if it were RSI. For RSI, the auditor reviews the data for overall compliance with associated guidance and for consonance with the basic financial statements. The auditor usually provides in-depth review of the RSI only if there appears to be some problem with the data. If he or she believes that the data is not fairly presented, the auditor still may issue a clean opinion on the basic financial statements while noting that there are problems with the RSI.

115 Therefore, the Board has proposed that a new category, RSSI, be designated to cover stewardship reporting. By developing this new category, it is anticipated that audit standards will be developed to address the specific items in that category. Although the Board does not have authority to set audit standards, it established RSSI with the expectation that OMB and GAO will, in collaboration, determine appropriate audit procedures for this information.

Appendix B: Excerpts from Professional Standards Published by AICPA

Excerpt from AU 550: Other information in Documents Containing Audited Financial Statements

> [Copyright AICPA, used by permission. Some footnotes and cross-references in the original have been omitted. Portions have not yet been revised to reflect SAS 91, which recognizes federal accounting principles as GAAP for federal entities.]

.01 An entity may publish various documents that contain information (hereinafter, "other information") in addition to audited financial statements and the independent auditor's report thereon. This section provides guidance for the auditor's consideration of other information included in such documents.

.02 This section is applicable only to other information contained in (a) annual reports to holders of securities or beneficial interests, annual reports of organizations for charitable or philanthropic purposes distributed to the public, and annual reports filed with regulatory authorities under the Securities Exchange Act of 1934 or (b) other documents to which the auditor, at the client's request, devotes attention.

.03 This section is not applicable when the financial statements and report appear in a registration statement filed under the Securities Act of 1933. The auditor's procedures with respect to 1933 Act filings are unaltered by this section . . . Also, this section is not applicable to other information on which the auditor is engaged to express an opinion. The guidance applicable to auditing and reporting on certain information other than financial statements intended to be presented in conformity with generally accepted accounting principles is unaltered by this section. . . .

.04 Other information in a document may be relevant to an audit performed by an independent auditor or to the continuing propriety of his report. The auditor's responsibility with respect to information in a document does not extend beyond the financial information identified in his report, and the auditor has no obligation to perform any procedures to corroborate other information contained in a document. However, he should read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. If the auditor concludes that there is a material inconsistency, he should determine whether the financial statements, his report, or both require revision. If he concludes that they do not require revision, he should request the client to revise the other information. If the other information is not revised to eliminate the material inconsistency, he should consider other actions such as revising his report to include an explanatory paragraph describing the material inconsistency, withholding the use of his report in the document, and withdrawing from the engagement. The action he takes will depend on the particular circumstances and the significance of the inconsistency in the other information.

.05 If, while reading the other information for the reasons set forth in paragraph .04, the auditor becomes aware of information that he believes is a material misstatement of fact that is not a material inconsistency as described in paragraph .04, he should discuss the matter with the client. In connection with this discussion, the auditor should consider that he may not have the expertise to assess the validity of the statement, that there may be no standards by which to assess its presentation, and that there may be valid differences of judgment or opinion. If the auditor concludes he has a valid basis for concern he should propose that the client consult with some other party whose advice might be useful to the client, such as the client's legal counsel.

.06 If, after discussing the matter as described in paragraph .05, the auditor concludes that a material misstatement of fact remains, the action he takes will depend on his judgment in the particular circumstances. He should consider steps such as notifying his client in writing of his views concerning the information and consulting his legal counsel as to further appropriate action in the circumstances.

Excerpt from AU 558: Required Supplementary Information

.01 The Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) develop standards for financial reporting, including standards for financial statements and for certain other information supplementary to financial statements. [fn 1 omitted] This section provides the independent auditor with guidance on the nature of procedures to be applied to supplementary information required by the FASB or GASB, and describes the circumstances that would require the auditor to report such information.

Applicability

.02 This section is applicable in an audit in accordance with generally accepted auditing standards of financial statements included in a document that should contain supplementary information required by the FASB or GASB However, this section is not applicable if the auditor has been engaged to audit such supplementary information.[11]

.03 Some entities may voluntarily include, in documents containing audited financial statements, certain supplementary information that is required of other entities. When an entity voluntarily includes such information as a supplement to the financial statements or in an unaudited note to the financial statements, the provisions of this section are applicable unless either the entity indicates that the auditor has not applied the procedures described in this section or the auditor includes in an explanatory paragraph in his report on the audited financial statements a disclaimer on the information.[12] The following is an example of a disclaimer an auditor might use in these circumstances:

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

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

Involvement With Information Outside Financial Statements

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

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[11] Footnote 2 in AU 558, which was written before SAS 91 extended GAAP status to federal accounting principles, states: "This section is not applicable to entities that voluntarily present supplementary information not required by the FASB or GASB. For example, entities that voluntarily present supplementary information on the effects of inflation and changes in specific prices, formerly required by FASB Statement No. 33, *Financial Reporting and Changing Prices*, are guided by section 550, *Other Information in Documents Containing Audited Financial Statements."*

[12] Footnote 3 in AU 558 states: "When supplementary information is presented in an auditor-submitted document outside the basic financial statements, the guidance in section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, as amended by SAS No. 52, *Omnibus Statement on Auditing Standards—1987*, should be followed."

.05 The auditor's responsibility for other information not required by the FASB or GASB but included in certain annual reports—which are client-prepared documents[13] —is specified in section 550. The auditor's responsibility for information outside the basic financial statements in documents that the auditor submits to the client or to others is specified in section 551. The auditor's responsibility for supplementary information required by the FASB or GASB (called required supplementary information) is discussed in the paragraphs that follow.

Involvement With Required Supplementary Information

.06 Required supplementary information differs from other types of information outside the basic financial statements because the FASB or GASB considers the information an essential part of the financial reporting of certain entities and because authoritative guidelines for the measurement and presentation of the information have been established. Accordingly, the auditor should apply certain limited procedures to required supplementary information and should report deficiencies in, or the omission of, such information.

.07 The auditor should consider whether supplementary information is required by the FASB or GASB in the circumstances. If supplementary information is required, the auditor ordinarily should apply the following procedures to the information.[14]

a. Inquire of management about the methods of preparing the information, including (1) whether it is measured and presented within prescribed guidelines, (2) whether methods of measurement or presentation have been changed from those used in the prior period and the reasons for any such changes, and (3) any significant assumptions or interpretations underlying the measurement or presentation.

b. Compare the information for consistency with (1) management's responses to the foregoing inquiries, (2) audited financial statements, [footnote 6 omitted] and (3) other knowledge obtained during the examination of the financial statements.

c. Consider whether representations on required supplementary information should be included in specific written representations obtained from management (section 333, Management Representations).

d. Apply additional procedures, if any, that other statements, interpretations, guides, or statements of position prescribe for specific types of required supplementary information.

e. Make additional inquiries if application of the foregoing procedures causes the auditor to believe that the information may not be measured or presented within applicable guidelines.

[13] Footnote 4 in AU 558 states: "Client-prepared documents include financial reports prepared by the client but merely reproduced by the auditor on the client's behalf."

[14] Footnote 5 in AU 558 states: "These procedures are also appropriate when the auditor is involved with voluntary presentation of such information required for other entities (see paragraph .03)."

Circumstances Requiring Reporting on Required Supplementary Information

.08 Since the supplementary information is not audited and is not a required part of the basic financial statements, the auditor need not add an explanatory paragraph to his report on the audited financial statements to refer to the supplementary information or to his limited procedures, except in any of the following circumstances:[15] (a) the supplementary information that the FASB or GASB requires to be presented in the circumstances is omitted; (b) the auditor has concluded that the measurement or presentation of the supplementary information departs materially from prescribed guidelines; (c) the auditor is unable to complete the prescribed procedures; (d) the auditor is unable to remove substantial doubts about whether the supplementary information conforms to prescribed guidelines. Since the required supplementary information does not change the standards of financial accounting and reporting used for the preparation of the entity's basic financial statements, the circumstances described above do not affect the auditor's opinion on the fairness of presentation of such financial statements in conformity with generally accepted accounting principles. Furthermore, the auditor need not present the supplementary information if it is omitted by the entity. The following are examples of additional explanatory paragraphs an auditor might use in these circumstances.

Omission of Required Supplementary Information

> The (Company or Governmental Unit) has not presented *[describe the supplementary information required by the FASB or GASB in the circumstances]* that the (Financial or Governmental) Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Material Departures From Guidelines

> The [*specifically identify the supplementary information*] on page XX is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the [*specifically identify the supplementary information*] is not in conformity with guidelines established by the (Financial or Governmental) Accounting Standards Board because [*describe the material departure(s) from the FASB or GASB guidelines*].

Prescribed Procedures Not Completed

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

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[15] Footnote 7 in AU 558 states: "When required supplementary information is presented outside the basic financial statements in an auditor-submitted document, the auditor should disclaim an opinion on the information unless he has been engaged to examine and express an opinion on it (see section 551.15)."

Unresolved Doubts About Adherence to Guidelines

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

Even though he is unable to complete the prescribed procedures, if, on the basis of facts known to him, the auditor concludes that the supplementary information has not been measured or presented within prescribed guidelines, he should suggest appropriate revision; failing that, he should describe the nature of any material departure(s) in his report.

.09 If the entity includes with the supplementary information an indication that the auditor performed any procedures regarding the information without also indicating that the auditor does not express an opinion on the information presented, the auditor's report on the audited financial statements should be expanded to include a disclaimer on the information.

.10 Ordinarily, the required supplementary information should be distinct from the audited financial statements and distinguished from other information outside the financial statements that is not required by the FASB or GASB. However, management may choose not to place the required supplementary information outside the basic financial statements. In such circumstances, the information should be clearly marked as unaudited. If the information is not clearly marked as unaudited, the auditor's report on the audited financial statements should be expanded to include a disclaimer on the supplementary information.

Excerpt From Attestation Standards: Introduction

The accompanying "attestation standards" provide guidance and establish a broad framework for a variety of attest services increasingly demanded of the accounting profession. The standards and related interpretive commentary are designed to provide professional guidelines that will enhance both consistency and quality in the performance of such services.

For years, attest services generally were limited to expressing a positive opinion on historical financial statements on the basis of an audit in accordance with generally accepted auditing standards (GAAS). However, certified public accountants increasingly have been requested to provide, and have been providing, assurance on representations other than historical financial statements and in forms other than the positive opinion. In responding to these needs, certified public accountants have been able to generally apply the basic concepts underlying GAAS to these attest services. As the range of attest services has grown, however, it has become increasingly difficult to do so.

Consequently, the main objective of adopting these attestation standards and the related interpretive commentary is to provide a general framework for and set reasonable boundaries around the attest function. As such, the standards and commentary (a) provide useful and necessary guidance to certified public accountants engaged to perform new and evolving attest services and (b) guide AICPA standard-setting bodies in establishing, if deemed necessary, interpretive standards for such services.

The attestation standards are a natural extension of the ten generally accepted auditing standards. Like the auditing standards, the attestation standards deal with the need for technical competence, independence in mental attitude, due professional care, adequate planning and supervision, sufficient evidence, and appropriate reporting; however, they are much broader in scope. (The eleven attestation standards are listed below.) Such standards apply to a growing array of attest services. These services include, for example, reports on descriptions of systems of internal control; on descriptions of computer software; on compliance with statutory, regulatory, and contractual requirements; on investment performance statistics; and on information supplementary to financial statements. Thus, the standards have been developed to be responsive to a changing environment and the demands of society.

These attestation standards apply only to attest services rendered by a certified public accountant in the practice of public accounting—that is, a practitioner as defined in footnote 1 of paragraph .01.

The attestation standards do not supersede any of the existing standards in Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARSs), and Statement on Standards for Accountants' Services on Prospective Financial Information. Therefore, the practitioner who is engaged to perform an engagement subject to these existing standards should follow such standards.

Attestation Standards

General Standards

1. The engagement shall be performed by a practitioner or practitioners having adequate technical training and proficiency in the attest function.

2. The engagement shall be performed by a practitioner or practitioners having adequate knowledge in the subject matter of the assertion.

3. The practitioner shall perform an engagement only if he or she has reason to believe that the following two conditions exist.

   - The assertion is capable of evaluation against reasonable criteria that either have been established by a recognized body or are stated in the presentation of the assertion in a sufficiently clear and comprehensive manner for a knowledgeable reader to be able to understand them.

   - The assertion is capable of reasonably consistent estimation or measurement using such criteria.

4. In all matters relating to the engagement, an independence in mental attitude shall be maintained by the practitioner or practitioners.

5. Due professional care shall be exercised in the planning and performance of the engagement.

Standards of Fieldwork

1. The work shall be adequately planned and assistants, if any, shall be properly supervised.

2. Sufficient evidence shall be obtained to provide a reasonable basis for the conclusion that is expressed in the report.

Standards of Reporting

1. The report shall identify the assertion being reported on and state the character of the engagement.

2. The report shall state the practitioner's conclusion about whether the reliability of the assertion is presented in conformity with based on the established or stated criteria against which it was measured.

3. The report shall state all of the practitioner's significant reservations about the engagement and the presentation of the assertion.

4. The report on an engagement to evaluate an assertion that has been prepared based on in conformity with agreed-upon criteria or on an engagement to apply agreed-upon procedures should contain a statement limiting its use to the parties who have agreed upon such criteria or procedures.

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