



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER  
STATE AND LOCAL GOVERNMENT FINANCE DIVISION  
AND THE LOCAL GOVERNMENT COMMISSION

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**Memorandum # 2013-01**

**To: Local Government Financial Officials and their Independent Auditors**

**From: Sharon Edmundson, Director, Fiscal Management Section**

**Subject: Guidance for Auditing Supplementary Information**

**Date: July 20, 2012**

Three Statements on Auditing Standards (SAS), which address reporting on supplementary information that accompanies the basic financial statements, have gone into effect for most local governments and public authorities in North Carolina as of June 30, 2012. These standards are known collectively as Auditing Guidance for Supplementary Information. These three standards eliminate the distinction between other information which is included in an auditor-submitted document that contains the basic financial statements and the auditor's opinion, and other information that is in a client-prepared document. The new SASs make a distinction between other information, supplementary information, and required information. The new SASs are as follows:

SAS No. 118 - *Other Financial Information in Documents Containing Audited Financial Statements*

SAS No. 119 - *Supplementary Information in Relation to the Financial Statements Taken as a Whole*

SAS No. 120 - *Required Supplementary Information*

The Auditing Guidance for Supplementary Information standards, which relate to reporting on information that accompanies the basic financial statements, goes into effect for audits of financial statements for periods that began on or after December 15, 2010. For most local governments and public authorities in North Carolina this is for fiscal years ended June 30, 2012.

**SAS No. 118 - Other Information:** Other Information is considered to be financial and nonfinancial information, other than the financial statements and the auditor's report, that is included in a document containing audited financial statements and the audit report, excluding required supplementary information. Other information is presented voluntarily and, according to the SAS, includes information such as reports by management on operations, financial summaries or highlights, employment data, planned capital expenditures, financial ratios, names of officers and directors, and selected quarterly data. For local governments and public authorities, this would include the introductory section and certain information found in the statistical section of a Comprehensive Annual Financial Report (CAFR).

SAS No. 118 requires the auditor to read any Other Information of which the auditor is aware, because the creditability of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and Other Information. If the auditor identifies material inconsistencies, he or she should determine whether the Other Information or the financial statements need to be revised. Further guidance on this can be found in the SAS or AU section 550.

The auditor may include an explanatory paragraph to disclaim an opinion on the Other Information presented along with the financial statements, but this is not required.

SAS No. 118 supersedes AU 550, *Other Information in Documents Containing Audited Financial Statements*, and AU 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1).

**SAS No. 119 - Supplementary Information:** This SAS addresses the auditor's responsibility when engaged to report on whether Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole. Supplementary Information is defined as information presented outside of the basic financial statements, excluding required supplementary information, and is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. The information may be presented in a document containing the audited financial statements or separate from the financial statements.

Supplementary Information includes additional details or explanations of items in or related to the basic financial statements, consolidating information, historical summaries of items extracted from the basic financial statements, statistical data, and other material, some of which may be from sources outside the accounting system or outside the entity. For local governments and public authorities, this would include the combining and individual fund statements, budgetary schedules not included in the basic financial statements, and other schedules such as the schedule of ad valorem taxes receivable and analysis of current tax levy. Also, Supplementary Information would include the schedule of expenditures of federal and State awards, which is sometimes presented separately from the financial statements.

In order to opine on whether Supplementary Information is fairly stated, the auditor needs to perform procedures on the Supplementary Information to be sure that the information is fairly stated in all material respects, in relation to the financial statements as a whole. The procedures include confirming that the Supplementary Information was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The auditor should obtain the agreement of management that it acknowledges and understands its responsibility, including the preparation of the Supplementary Information in accordance with the applicable criteria.

SAS No. 119 also supersedes AU 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1).

**SAS No. 120 – Required Supplementary Information:** This SAS addresses the auditor’s responsibility with respect to information that a designated accounting standard setter, such as GASB, requires to accompany an entity’s basic financial statements, or Required Supplementary Information (RSI). In the absence of any separate requirement in the particular circumstances of the engagement, the auditor’s opinion on the basic financial statements does not cover RSI.

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

RSI reported by local governments and public authorities in North Carolina includes the Management and Discussion and Analysis (MD&A), and also, if applicable, Other Post Employment Benefits’ and/or Law Enforcement Officers’ Separation Allowance’s actuarial information.

The auditor should apply the following procedures to RSI:

- Inquire of management about the methods of preparing the information, including: (1) whether it has been measured and presented in accordance with 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) whether there were any significant assumptions or interpretations underlying the measurement or presentation of the information.
- Compare the information for consistency with: (1) management’s response to the foregoing inquiries, (2) the basic financial statements, and (3) other knowledge obtained during the audit of the basic financial statements.
- Obtain written representations from management: (1) that it acknowledges its responsibility for the required supplementary information; (2) about whether the RSI is measured and presented in accordance with prescribed guidelines; (3) about whether the methods of measurement or presentation have changed from those used in the prior period and, if so, the reasons for the changes; and (4) about any significant assumptions or interpretations underlying the measurement or presentation of the RSI.

If the auditor is unable to complete the procedures listed above, then the auditor should consider whether management contributed to the auditor’s inability to complete the procedures. If it is the auditor’s opinion that the auditor’s inability to complete the procedures was due to significant difficulties encountered in dealing with management, then the auditor should communicate this to the governing board and other management.

The auditor should include an explanatory paragraph in the auditor’s report on the financial statements to refer to the RSI. The explanatory paragraph should be included after the opinion paragraph.

If the auditor is unable to complete the procedures to the RSI, there should be a statement that the auditor was unable to apply certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States because of [*state the reasons*] in the explanatory paragraph. Also, a statement should be included that the auditor does not express an opinion or provide any assurance on the information.

If some of the RSI is omitted, there needs to be a statement that management has omitted [*description of RSI*] that [*accounting principles generally accepted in the United States of America*]<sup>1</sup> require to be presented to supplement the basic financial statements. There also needs to be a statement that such missing information, though not part of the basic financial statements, is required by [*Governmental Accounting Standards Board*]<sup>2</sup>, which considers it to be an essential part of financial reporting for the placing of the basic financial statements in an appropriate operational, economic, or historical context. Finally, the auditor should state that the opinion of the basic financial statements is not affected by the missing information.

SAS No. 120 supersedes AU 558, *Required Supplementary Information* (AICPA, *Professional Standards*, vol. 1).

Examples of reports with the required wording for the explanatory paragraph with RSI, as well as examples with reports that include Supplementary Information and Other Information, can be found at [www.nctreasurer.com](http://www.nctreasurer.com), under Division, Local Fiscal Management, Memos.

Should you have any questions concerning this memorandum, please contact James Burke at (919) 807-2389 or via e-mail at [james.burke@nctreasurer.com](mailto:james.burke@nctreasurer.com) or Manasa Cooper at (919) 807-2390 or via e-mail at [manasa.cooper@nctreasurer.com](mailto:manasa.cooper@nctreasurer.com).

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1  
□ This should include the applicable financial reporting framework. This is accounting principles accepted in the United States of America for local governments and public authorities in North Carolina.

2  
□ This should identify the designated accounting standard setter, such as Governmental Accounting Standards Board (GASB).