

## Summary of the SEC and PCAOB Dec. 2006 Proposals

In late December 2006, the SEC and the PCAOB issued proposed guidance for companies and auditors, respectively, regarding the evaluation and audit of internal control over financial reporting (ICFR). This *Governance Alert* provides a brief overview of the more significant components of each proposal, and includes attachments that summarize each proposal.

### SEC's Proposed Interpretive Guidance

The SEC's proposed interpretive guidance for management sets forth an approach by which management can conduct a top-down, risk-based evaluation of internal control over financial reporting. The proposed guidance is organized around two broad principles:

- Management should evaluate the design effectiveness of the controls that it has implemented to prevent or detect a material misstatement in the financial statements.
- Management should perform a risk-based assessment of the operating effectiveness of its controls.

The SEC's proposed guidance recognizes that management may naturally have more direct information about the operation of controls than others, such as external auditors, and therefore may be able to use more efficient approaches to gathering evidence. For example, management might employ such techniques as self-assessments and ongoing monitoring activities in low-risk areas, and perform more extensive testing in high-risk areas. The SEC would generally expect management to:

- Identify financial reporting risks,
- Identify controls that adequately address those risks,
- Implement procedures to evaluate the operating effectiveness of those controls,
- Evaluate identified control deficiencies,
- Express an assessment of the effectiveness of ICFR, including disclosures about material weaknesses, and
- Appropriately document the results of its assessment process.

### PCAOB's Proposed Auditing Standards

The PCAOB has in turn proposed two new Auditing Standards (ASs) to replace AS No. 2. The first proposed standard, titled *An Audit of Internal Control over Financial Reporting That is Integrated With an Audit of Financial Statements*, is designed to direct auditors in how to audit ICFR. The second proposed standard, titled *Considering and Using the Work of Others in an Audit*, is intended to clarify how auditors should use the work of others both in an audit of the financial statements and in an audit of ICFR.

Most of the changes to existing standards in these two proposals involve the incorporation of guidance previously issued by the PCAOB through its frequently asked questions process.

### Risk-based Approach

Consistent with previous guidance, the proposals direct auditors to design their audits using a top-down, risk-based approach. They emphasize the importance of using an appropriate risk assessment to scope both the audits of the financial statements and ICFR. These concepts include tailoring the audit to reflect the attributes of smaller, less-complex companies and refocusing the multi-location testing requirements on risk rather than on coverage.

### Changes to the Definitions of Significant Deficiency and Material Weakness

The PCAOB is proposing to revise the definitions of significant deficiency and material weakness by replacing the term "more than remote likelihood" with the term "reasonable possibility." It is important to note, however, that under both AS No. 2 and the proposed new auditing standard, the PCAOB maintains the expectation that both terms be interpreted to be consistent with the FASB Statement No. 5 terms "probable," "reasonably possible" and "remote." In other words, auditors who correctly interpreted the term "more than remote likelihood" under

AS No. 2 would apply the same definition to the term “reasonable possibility” under AS No. 5. The PCAOB is also proposing to replace the term “more than inconsequential” with the term “significant” in the definition of significant deficiency.

### **Clarifying the Role of Materiality in the Audit**

Consistent with its interpretation of AS No. 2, the PCAOB expects auditors to use the same materiality considerations in both the audit of the financial statements and the audit of ICFR. The PCAOB is also maintaining its expectation that auditors will use an annual measure of materiality to determine audit scope, but will consider interim materiality measures when evaluating the significance of identified control deficiencies.

### **Removing the Requirement to Evaluate Management’s Process**

Under AS No. 2, the auditor is required both to evaluate management’s annual evaluation process and form an opinion on the effectiveness of ICFR. Some commenters expressed concern that auditors were performing detailed testing solely to conclude on management’s evaluation process rather than simply using the results of their audit of ICFR to conclude on the effectiveness of management’s evaluation process. Under the proposed AS No. 5, the auditor would only form an opinion on the effectiveness of ICFR. To the extent that auditors were conducting unnecessary tests on management’s process under AS No. 2, the AS No. 5 revision will eliminate those unnecessary audit procedures.

### **Permitting Consideration of Knowledge Obtained During Previous Audits**

The proposed standard omits the requirement that “each year’s audit must stand on its own” and allows the auditor to consider knowledge obtained during previous audits when planning the current year’s audit. Those considerations include:

- The auditor’s overall risk assessment,
- The nature, timing and extent of audit procedures performed in prior years’ audits,
- The results of that testing, and
- Any changes in the control or related process since the last audit.

### **Providing for More Use of the Work of Others**

The PCAOB’s proposed new standard regarding the use of the work of others allows the auditor to use more of the work of others, such as procedures performed by internal audit, in more areas than presently allowed under AS No. 2. For example, auditors would be allowed to use the work of others who are competent and objective in testing certain aspects of the control environment that previously had to be tested by the auditor alone. The proposed standard also allows the auditor to utilize the direct assistance of others when performing required walkthroughs.

The attached summaries provide more detail about these proposals. If you have questions, please contact your local engagement partner or Trent Gazzaway at [Trent.Gazzaway@gt.com](mailto:Trent.Gazzaway@gt.com).

# SEC Proposed Guidance Summary

Feb. 5, 2007



## Management's Report on Internal Control Over Financial Reporting

### I. The Evaluation Process

#### A. Identifying Financial Reporting Risks and Controls

##### 1. Identifying Financial Reporting Risks (pp. 22-23)

*The proposed guidance requires management to identify financial reporting risks that have a reasonable possibility of materially impacting the financial statements, including the risk of fraud. Management would have considerable latitude in how it determines the nature and extent of those risks. The proposed guidance also expects management to consider, among other things, the size, complexity and organizational structure of the entity.*

##### 2. Identifying Controls that Adequately Address Financial Reporting Risks (pp. 24-25)

*The proposed guidance requires management to evaluate whether it has controls placed in operation that are designed to address the financial reporting risks identified as outlined above. The guidance does not require management to identify all controls that exist, only those that "adequately address the risk of misstatement." It goes further to indicate that those identified controls might be entity-level controls.*

##### 3. Consideration of Entity-level Controls (pp. 26-27)

*The proposed guidance suggests that the nature of entity-level controls will dictate the effectiveness of a control in preventing or detecting a misstatement. Entity-level controls that are designed to operate at the process, transaction or application level could possibly prevent or detect misstatements that could result in a material misstatement to the financial statements. The proposed guidance requires management to evaluate the nature of entity-level controls and how they relate to the financial reporting element.*

##### 4. Role of General Information Technology Controls (pp. 27-28)

*Certain controls that management identifies could be automated or could rely on the IT environment. The operation of both automated and IT-dependent controls relies on effective general IT controls. For an evaluation of ICFR, the proposed guidance requires management to evaluate only those IT general controls that are necessary to address financial reporting risk. General IT controls vary from company to company, and management should consider the extent to which general IT control objectives related to program development, program changes, computer operations, and access to programs and data apply to its environment.*

##### 5. Evidential Matter to Support the Assessment (i.e., what to document) (pp. 28-29)

*The proposed guidance requires management to maintain reasonable support for its assessment. The required documentation would not include all controls that exist within a process but rather only those controls that management concludes are necessary to address the financial reporting risks.*

#### B. Evaluating Evidence of the Operating Effectiveness of ICFR

##### 1. Determining the Evidence Needed to Support the Assessment (pp. 31-35)

*To determine the evidence needed to support management's assessment, the proposed guidance suggests that management evaluate the characteristics of the financial reporting elements to which the controls relate. The elements that are deemed to be higher-risk would require more evidence as compared to the lower-risk elements. The characteristics identified in the proposed guidance include elements that: (1) involve judgment in determining the recorded amounts, (2) are susceptible to*

*fraud, (3) have complex underlying accounting requirements, (4) are subject to environmental factors, and/or (5) require a combination of controls.*

## 2. Implementing Procedures to Evaluate Evidence of the Operation of ICFR (pp. 35-38)

*According to the proposed guidance, “the methods and procedures, including the timing of when they are performed, are a function of the evidence that management considers necessary to provide reasonable support for its assessment.” The evidence may come from ongoing monitoring functions or from direct testing procedures. The proposed guidance further suggests that evidence obtained from direct testing supports the higher-risk areas and that ongoing monitoring may be sufficient to support the lower-risk areas. For the areas subject to direct testing, management should also consider obtaining evidence from a reasonable period of time during the year, including the fiscal year-end.*

## 3. Evidential Matter to Support the Assessment (i.e., how to document) (pp. 38-39)

*The proposed guidance requires that management’s assessment be supported by evidential matter that provides reasonable support for its assessment. This support would include the basis for management’s assessment and documentation of the methods and procedures performed to gather and evaluate evidence. The proposed guidance suggests that the nature of evidential matter should be a function of the assessed level of risk.*

### C. Multiple-location Considerations (pp. 39-41)

*The proposed guidance requires that management consider the financial reporting risks at all of its locations or business units. Management may conclude that controls that operate centrally adequately address financial reporting risks. Additionally, for the individual locations where the financial reporting risk is evaluated as low, management may determine that evidence obtained from self-assessment mechanisms or other ongoing monitoring activities, combined with the monitoring activities at the central location, is sufficient for the evaluation. The proposed guidance also suggests that management should consider whether there are location-specific risks that might impact the risk that a control might fail to operate.*

## II. Reporting Considerations

### A. Evaluation of Control Deficiencies (pp. 41-46)

*The proposed guidance requires that management consider each control deficiency that is identified, and control deficiencies that are deemed to be material weaknesses*

*must be disclosed in management’s annual report. The proposed guidance also suggests that the evaluation of a control deficiency should include both qualitative and quantitative factors. Additionally, management should consider the impact of multiple control deficiencies on a single financial element. The proposed guidance suggests that management should evaluate the effect of compensating controls when determining whether a control deficiency or a combination of deficiencies is a material weakness.*

### B. Expression of Assessment of Effectiveness of ICFR by Management and the Registered Public Accounting Firm (pp. 46)

*The proposed guidance requires management to “disclose a clear expression of its assessment related to the effectiveness of ICFR.” If a material weakness exists, management cannot state that the ICFR is effective subject to certain qualifications or exceptions.*

### C. Disclosures About Material Weaknesses (pp. 46-47)

*The proposed guidance still requires management to disclose all material weaknesses identified and suggests that companies consider providing disclosure that allows investors to understand the root cause of the control deficiency and to assess the potential impact and importance to the financial statements of each material weakness.*

### D. Impact of a Restatement of Previously Issued Financial Statements on Management’s Report on ICFR (pp. 47-48)

*The proposed guidance does not require management to reassess or revise its conclusions related to the effectiveness of ICFR in the event the company has to restate previously issued financial statements. However, the proposed guidance suggests that the company should evaluate whether the original disclosures are still appropriate and should modify or supplement its original disclosures to ensure that the disclosures are not misleading given the restatement. The company would still be required to disclose any material changes to ICFR, as required by Item 308(c) of Regulation S-K.*

### E. Inability to Assess Certain Aspects of ICFR

*When circumstances arise that prohibit the company from assessing part of its ICFR and compensating controls do not exist, the proposed guidance requires management to determine whether the inability to assess controls over a particular process is significant enough to conclude in its report that ICFR is not effective. The proposed guidance does not allow for the company to issue a report on ICFR with a scope limitation.*

# PCAOB Proposed AS Summary

Feb. 5, 2007



## An Audit of ICFR That is Integrated With an Audit of Financial Statements

### I. Planning the Audit (§§6-15)

#### A. Integration and Risk Assessment (§§7 and B1-B11)

*Consistent with previously issued guidance, the PCAOB expects the auditor to begin the planning process by evaluating general knowledge about the company, its control environment, its industry, its organizational structure, etc. Anything that might indicate an increased or decreased level of financial reporting risk should be considered. The PCAOB also expects the audit of the financial statements to be integrated with the audit of internal control over financial reporting (ICFR). In other words, conclusions about the effectiveness of internal control (positive or negative) should have a corresponding impact on the nature, timing and extent of financial statement audit work, and vice versa.*

#### B. Role of Risk Assessment (§8)

*As it has indicated in the past, the PCAOB expects auditors to focus the majority of their attention on the areas of greatest risk. It expects the auditor to test only those controls that, if deficient, would present a “reasonable possibility” of material misstatement to the financial statements.*

#### C. Scaling the Audit for Smaller Companies (§§9-12)

*The proposed standard reiterates the PCAOB’s expectation, but more formally states that the auditor should consider the size and complexity of a company when planning and performing the audit of internal control. Small, less-complex companies should have smaller, simpler audits than larger, more-complex companies. They also might not be expected to practice flawless segregation of duties.*

*The PCAOB expects auditors in these cases to be able to focus their audit testing more on management’s direct interaction with company personnel and on management’s monitoring controls. It also believes that inquiry and observation may be used more often in these cases, particularly where control documentation is less formal.*

*The PCAOB continues to recognize that the risk of management override is particularly important in these organizations and encourages the auditor to examine related controls, which may include more detailed oversight by the audit committee.*

*To the extent that these organizations use unmodified, prepackaged software, the PCAOB believes that auditors should focus on the application controls in that software and on any IT general controls necessary to support them.*

#### D. Using the Work of Others (§13 and the PCAOB’s separate proposed standard)

*The PCAOB is proposing a separate auditing standard on Considering and Using the Work of Others in an Audit. That proposed standard maintains the requirement that in order to use the work of others, the auditor should evaluate the nature of the subject matter tested by others, evaluate the competence and objectivity of the individuals who perform the work, and test some of the work performed by others to evaluate its quality and effectiveness.*

*The PCAOB is proposing to exclude language from its standard that would require the auditors’ own work to provide the “principal evidence” for their opinion out of concern that some auditors were not using enough of the work of others, particularly in low-risk areas. The proposal does retain the requirement, however, that the auditors obtain sufficient competent evidence to support their opinion.*

### E. Materiality (§§14-15)

*Consistent with today's expectations, the proposed standard requires the auditor to use the same materiality considerations in both financial statement audits and audits of ICFR. Also consistent with today's treatment, while quarterly materiality should not be used to determine the scope of testing, it should be used when evaluating the significance of an identified deficiency.*

## II. Using a Top-down Approach (§§16-46)

### A. Identifying Company-level Controls (§§17-23)

*Consistent with the May 2005 guidance, early in the audit process, the auditor should test company-level controls (e.g., controls over the environment, management override controls, risk assessment process, centralized processing controls, controls that monitor the results of operations, controls that monitor other controls, controls that monitor the period-end financial reporting process, etc.). At a minimum, testing these controls would influence the auditor's risk assessment process and remaining audit planning. It might also provide enough support to eliminate the need to test in certain areas.*

### B. Identifying Significant Accounts, Relevant Assertions, Major Classes of Transactions and Significant Processes (§§24-35 and B12-B18)

*In both the financial statement audit and the audit of internal controls, the auditor should use the same qualitative and quantitative factors to identify significant accounts and disclosures. Risk factors include account size, fraud risk, volume, complexity, related-party transactions, changes from prior period, and several others.*

*The proposed standard retains the expectation that when a company has multiple locations or business units, the auditor should correlate the amount of audit work in those locations to the related reasonable risk those locations present to the consolidated financial statements.*

*In lower-risk locations or business units, auditors might more heavily rely on effective company-level controls. They could also use the work of others in some locations to reduce the number of locations they might otherwise visit.*

*For equity method investments — consistent with today's application — the scope of the audit should include controls over the reporting of the company's portion of the investees' income or loss, the investment balance, adjustments to the income or loss and investment balance,*

*and related disclosures. The audit ordinarily would not extend to controls at the equity method investee.*

*The proposed standard retains the expectation that the auditor should use financial statement assertions (e.g., existence and occurrence, completeness, valuation, rights and obligations, and presentation and disclosure) to identify "what could go wrong?" in the financial statements.*

*The auditor should also identify major classes of transactions (e.g., retail sales vs. internet sales) that might impact the significant accounts identified above. The auditor would then identify the significant processes impacting those classes that are material to the financials.*

*For each significant process, the PCAOB believes the auditor should:*

- *Understand the flow of major classes of transactions, including how these transactions are initiated, authorized, processed and recorded;*
- *Identify the points within the process at which a misstatement — including a misstatement due to fraud — could arise that, individually or in combination with other misstatements, would be material;*
- *Identify the controls that management has implemented to address these potential misstatements; and*
- *Identify the controls that management has implemented over the prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could result in a material misstatement of the financial statements.*

### C. Performing Walkthroughs (§§36-40)

*The proposed guidance maintains the requirement for the auditor to perform a walkthrough of each significant process. However, paragraph 40 indicates that the auditor may supervise the work of others (e.g., internal audit) who provide direct assistance to the auditor, as described in the PCAOB's Proposed Auditing Standard, *Considering and Using the Work of Others in an Audit*. (See I.D. above.)*

### D. Selecting Controls to Test (§§41-46)

*The auditor should test those controls that are important to the auditor's conclusions. However, the proposed standard states that it is not necessary to test all controls related to a relevant assertion.*

*The proposed standard does highlight that company-level controls vary in precision. (See II.A. above.)*

The proposed standard also indicates that the auditor should test the company's controls over the risk of fraud as well as controls intended to address the risk of management override of other controls. Weaknesses in this area should impact the scope of the financial statement audit work.

### III. Testing Controls (¶¶47-69)

#### A. Testing Design Effectiveness (¶¶47-48)

The auditor "tests" design effectiveness through a mix of inquiry and observation and inspection of relevant documentation. Additionally, the auditor should perform a specific evaluation of whether the controls are likely to prevent or detect errors or fraud if they are operated as prescribed by persons possessing the necessary authority and competence to perform the control effectively. The auditor ordinarily performs procedures sufficient to evaluate design effectiveness during the performance of the walkthrough.

#### B. Testing Operating Effectiveness (¶¶49-64)

The amount of testing necessary to support a conclusion about operating effectiveness is dependent on the risk that the control might not be effective, and if not effective, the risk that a material weakness would result.

Although the auditor must obtain evidence about the effectiveness of controls for each relevant assertion, the auditor is not responsible for obtaining sufficient evidence to support an opinion about the effectiveness of each individual control.

Factors that affect the risk associated with a control include:

- The nature and materiality of misstatements that the control is intended to prevent or detect;
- The inherent risk associated with the related account(s) and assertion(s);
- Whether there have been changes in the volume or nature of transactions that might adversely affect control design or operating effectiveness;
- Whether the account has a history of errors;
- The effectiveness of company-level controls, especially controls that monitor other controls;
- The degree to which the control relies on the effectiveness of other controls (e.g., the control environment or information technology general controls);
- The competence of the personnel who perform the control or monitor its performance, and whether there have been changes in key personnel who perform the control or monitor its performance;

- Whether the control relies on performance by an individual or is automated (i.e., an automated control would generally be expected to be lower-risk if relevant information technology general controls are effective); and
- The complexity of the control.

The proposed standard is clear that inquiry alone does not provide sufficient evidence to support a conclusion about the effectiveness of a control. When combined with another test such as observation, inspection or re-performance, however, inquiry might provide sufficient evidence about the effectiveness of a control.

For controls over higher-risk accounts and transactions — such as significant non-routine transactions, controls over accounts or processes with a high degree of subjectivity or judgment in measurement, or controls over the recording of period-end adjustments — the auditor should perform tests of controls closer to or at the as-of date rather than at an interim date. However, the auditor should balance performing the tests of controls closer to the as-of date with the need to test controls over a sufficient period of time to obtain sufficient evidence of operating effectiveness.

When determining if roll-forward audit procedures are necessary for testing performed at an interim date, the auditor should consider:

- The risks and related results of interim testing;
- The sufficiency of the evidence obtained (e.g., interim inquiry and observation is less sufficient than interim re-performance testing);
- The length of time since the interim tests; and
- The possibility that there have been significant changes.

Paragraphs B30-B35 discuss the possibility of using "benchmarking" to test automated controls in certain circumstances. Benchmarking, as the term is used here, refers to the practice of verifying that no changes have occurred in a previously tested control. For example, the auditor may test an automated control in year 1 and conclude that it is operating effectively. In year 2 — assuming other IT general controls are operating effectively — the auditor might only look to make sure the system coding for that control has not changed. He or she could accomplish this by comparing that coding to the prior year's coding, or the "benchmark." This type of testing can be useful in well-controlled and stable environments, such as with pre-packaged software having limited or no system-change capabilities.

### C. Special Considerations for Subsequent Years' Audits (¶¶65-69)

*The proposed guidance also indicates that the auditor should incorporate knowledge from previous years' audits when determining the nature, timing and extent of testing necessary in the current year's audit. Essentially the same factors highlighted above related to roll-forward testing would be considered in the subsequent years' planning.*

*The proposed standard also encourages auditors to introduce unpredictability into their testing and respond to changes in circumstances. Examples include testing controls at different interim periods, increasing or reducing the number and types of tests performed, or changing the combination of procedures used.*

### IV. Evaluating Identified Deficiencies (¶¶70-79)

*The proposed standard does not provide a robust framework for evaluating control deficiencies, nor does it refer to the existing framework widely in use today. However, what the proposed standard **does** say does not conflict with that framework.*

*The proposed standard retains all of the original "strong indicators" of a significant deficiency or material weakness. However, it removes the requirement that all "strong indicators of a material weakness" be considered, at a minimum, to be significant deficiencies. In other words, the auditor might identify a "strong indicator of a material weakness," but conclude in some circumstances that no deficiency actually exists. In practice, these should be rare exceptions.*

### V. Wrapping Up (¶¶80-93)

#### A. Forming an Opinion and Obtaining Written Representations (¶¶80-86)

*The proposed standard indicates that the auditor should form an opinion on the effectiveness of ICFR and then review management's disclosures in the related assertion. If the auditor believes those disclosures are incomplete or improperly presented, the auditor should modify his or her report to include an explanatory paragraph.*

*The proposed standard also directs the auditor to obtain a representation letter from the client. Paragraph 84 contains a robust list of elements the PCAOB would expect to be included in such a representation letter.*

### B. Communicating Certain Matters (¶¶87-93)

*Consistent with AS2, the proposed standard requires the auditor to communicate, in writing, to management and the audit committee all significant deficiencies and material weaknesses identified during the audit. The written communication should be made prior to the issuance of the auditor's report on ICFR.*

*The proposed standard also retains the requirement for the auditor to communicate to management, in writing, all deficiencies in ICFR.*

*If the auditor concludes that the oversight of the company's external financial reporting and internal control over financial reporting by the company's audit committee is ineffective, the auditor must communicate that conclusion in writing to the board of directors.*

### VI. Reporting on Internal Control (¶¶94-108)

#### A. Report Type and Date (¶¶94-98)

*The auditor can issue separate opinions on ICFR and on the financial statements, or the opinions may be combined into one.*

*The auditor should date the audit report no earlier than the date on which the auditor has obtained sufficient competent evidence to support the auditor's opinion.*

*Because the auditor cannot audit internal control over financial reporting without also auditing the financial statements, the reports should be dated the same.*

#### B. Material Weaknesses (¶¶99-103) and Significant Deficiencies (¶A12)

*Under AS2, auditors listed any identified material weaknesses in their audit opinions. In most cases, this was a duplication of the disclosures in management's assertion.*

*Under the proposed AS5, the auditor's opinion would refer only to the material weaknesses listed in management's assertion unless management failed to disclose an existing material weakness or if management's disclosure was not fairly presented. In those cases, the auditor would modify his or her report to include the disclosure or to explain the information necessary to fairly describe the material weakness.*

*The proposed standard defines a material weakness as "a control deficiency, or combination of control deficiencies, such that there is a **reasonable possibility** that a material misstatement of the company's annual or interim financial*

*statements will not be prevented or detected.” The term “reasonable possibility” is also used in the probability component of the proposed standard’s definition of a significant deficiency.*

*The term “reasonable possibility” is a change from the AS2 term “more than remote,” which the PCAOB believes was misinterpreted by some. However, it is important to note that the PCAOB has always intended for the probability component of the material weakness and significant deficiency definitions to be equivalent to the terms “reasonably possible” or “probable,” as those terms are used in Financial Accounting Standards Board Statement No. 5, Accounting for Contingencies (“FAS No. 5”). In other words, auditors who, under AS2, correctly interpreted the term “more than remote” as being equivalent to “reasonably possible” or “probable” will not need to change their audit approach as a result of this terminology clarification in the proposed AS5.*

*As it relates to significant deficiencies, the proposed standard also changes the magnitude component of the definition from “more than inconsequential” to “significant misstatement.” It is unclear at this point how this definitional change would be interpreted in practice, since currently there is not a broad body of evidence that supports a consistent definition of a misstatement that is “significant” but does not rise to the level of “material.”*

### **C. Subsequent Events (§§ 104-108)**

*Auditors should evaluate issues that arise after the balance sheet date, but before the report issuance date, that might impact the conclusion about the effectiveness of controls as of the balance sheet date. Examples include the results of post-balance-sheet-date internal audit reports, reports from other auditors, regulatory reports, etc.*