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Amendments to Statement on Auditing Standards No. 72, *Letters for Underwriters and Certain Other Requesting Parties*

(Amends Statement on Auditing Standards No. 72, AICPA, Professional Standards, vol. 1, AU sec. 634.)

Introduction

1. This Statement¹ provides reporting guidance when one of the parties identified in paragraph 3, 4, or 5 of Statement on Auditing Standards (SAS) No. 72, other than an underwriter or other party with a due diligence defense under section 11 of the Securities Act of 1933, requests a letter without providing the representation letter described in para-

¹ This Statement amends paragraph .01 of Statement on Standards for Attestation Engagements (SSAE) No. 1, *Attestation Standards* (AICPA, Professional Standards, vol. 1, AT sec. 300, "Reporting on Pro Forma Financial Information"), by replacing footnote 1 with the following:

¹ AU section 634, *Letters for Underwriters and Certain Other Requesting Parties*, identifies, in paragraphs .03 through .05, certain parties who may request a letter. When one of those parties requests a letter or asks the accountant to perform agreed-upon procedures on pro forma financial information in connection with an offering, the accountant should follow the guidance in AU section 634 (see paragraphs .03-.10, .36, .42, and .43).

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graphs 6 and 7 of SAS No. 72. The amendments in this Statement are effective for letters issued pursuant to paragraph 9 after April 30, 1996. Earlier application is encouraged.

2. This Statement—

- Replaces existing paragraphs 1 and 9 of SAS No. 72 with new paragraphs 1 and 9.
- Inserts a new paragraph numbered 10.
- Renumbers existing paragraphs 10 through 62 as 11 through 63.
- Renumbers existing footnotes 7 through 30 as 8 through 31.
- Adds new example Q to the Appendix.

Amendments to SAS No. 72

1. This Statement provides guidance to accountants for performing and reporting on the results of engagements to issue letters for underwriters and certain other requesting parties described in and meeting the requirements of paragraph 3, 4, or 5 (commonly referred to as “comfort letters”) in connection with financial statements and financial statement schedules contained in registration statements filed with the Securities and Exchange Commission (SEC) under the Securities Act of 1933 (the Act) and other securities offerings. In paragraph 9, this Statement also provides guidance to accountants for performing and reporting on the results of engagements to issue letters for certain requesting parties, other than underwriters or other parties with a due diligence defense under section 11 of the Act, that are described in, but do not meet the requirements of, paragraph 3, 4, or 5.

9. When one of the parties identified in paragraph 3, 4, or 5, other than an underwriter or other party with a due diligence defense under section 11 of the Act, requests a comfort letter but does not provide the representation letter described in paragraphs 6 and 7, accountants should not provide a comfort letter but may provide another form of letter. In such a letter, the accountants should not provide negative assurance on the financial statements as a whole, or on any of the specified elements, accounts, or items thereof. The other guidance in this Statement is applicable to performing procedures in connection with a letter and on the form of the letter (see paragraphs 36 through 43 and 54 through 60). Example Q in the Appendix provides an example of a letter issued in such a situation. Any such letter should include the following statements:

- a. It should be understood that we have no responsibility for establishing (and did not establish) the scope and nature of the procedures enu-

merated in the paragraphs above; rather, the procedures enumerated therein are those the requesting party asked us to perform. Accordingly, we make no representations regarding questions of legal interpretation⁷ or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraphs; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above as set forth in the offering circular. Further, we have addressed ourselves solely to the foregoing data and make no representations regarding the adequacy of disclosures or whether any material facts have been omitted. This letter relates only to the financial statement items specified above and does not extend to any financial statement of the company taken as a whole.

- b. The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Had we performed additional procedures or had we conducted an audit or a review of the company's [*give dates of any interim financial statements*] consolidated financial statements in accordance with standards established by the American Institute of Certified Public Accountants, other matters might have come to our attention that would have been reported to you.
- c. These procedures should not be taken to supplant any additional inquiries or procedures that you would undertake in your consideration of the proposed offering.
- d. This letter is solely for your information and to assist you in your inquiries in connection with the offering of the securities covered by the offering circular, and it is not to be used, circulated, quoted, or otherwise referred to for any other purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be filed with or referred to in whole or in part in the offering document or any other document, except that reference may be made to it in any list of closing documents pertaining to the offering of the securities covered by the offering document.
- e. We have no responsibility to update this letter for events and circumstances occurring after [*cutoff date*].

10. When a party other than those described in paragraph 3, 4, or 5 requests a comfort letter, the accountants should not provide that party with a comfort letter or the letter described in paragraph 9 or example Q. The accountants may instead provide that party with a report on agreed-upon procedures and should refer to SAS No. 75, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement* (AICPA, *Professional Standards*, vol. 1, AU sec. 622),

⁷ If this letter is requested in connection with a secured debt offering, the accountants should also refer to the attest Interpretation "Responding to Requests for Reports on Matters Relating to Solvency" (AICPA, *Professional Standards*, vol. 1, AT sec. 9100, paragraphs .33 through .44) for inclusion of additional statements.

or SSAE No. 4, *Agreed-Upon Procedures Engagements* (AICPA, *Professional Standards*, vol. 1, AT sec. 600), as applicable, for guidance.

Amendments to Appendix of SAS No. 72

Example Q: Letter to a Requesting Party That Has Not Provided the Representation Letter Described in Paragraphs 6 and 7

18. This example assumes that these procedures are being performed at the request of the placement agent on information included in an offering circular in connection with a private placement of unsecured notes with two insurance companies.¹⁹ The letter is dated June 30, 19X6; procedures were performed through June 25, 19X6, the cutoff date. The statements in paragraphs 5 through 9 of the example should be included in any letter issued pursuant to paragraph 9.²⁰

June 30, 19X6

[Addressee]

Dear Sirs:

We have audited the consolidated balance sheets of The Blank Company, Inc. (the company) and subsidiaries as of December 31, 19X5 and 19X4, and the consolidated statements of income, retained earnings (stockholders' equity), and cash flows for each of the three years in the period ended December 31, 19X5, included in the offering circular for \$30,000,000 of notes due June 30, 20X6. Our report with respect thereto is included in the offering circular. The offering circular dated June 30, 19X6, is herein referred to as the offering circular.

We are independent certified public accountants with respect to the company under rule 101 of the AICPA's Code of Professional Conduct, and its interpretations and rulings.²¹

We have not audited any financial statements of the company as of any date or for any period subsequent to December 31, 19X5; although we have conducted an audit for the year ended December 31, 19X5, the purpose (and, therefore, the scope) of the audit was to enable us to express our opinion on the consolidated financial statements as of December 31, 19X5, and for the year then ended, but

¹⁹ This same example could be used in conjunction with a municipal bond offering in which the accountant has not received the representation letter described in paragraphs 6 and 7.

²⁰ This example may also be used in connection with a filing under the Securities Act of 1933 (the Act) when a party other than a named underwriter (for example, a selling shareholder) has not provided the accountant with the representation letter described in paragraphs 6 and 7. In such a situation, this example may be modified to include the accountant's comments on independence and compliance as to form of the audited financial statements and financial statement schedules with the applicable accounting requirements of the Act and the related published rules and regulations. Example paragraph 1a (ii) may include an inquiry, and the response of company officials, on compliance as to form of the unaudited condensed interim financial statements.

²¹ See paragraphs 31 and 32 for guidance in commenting on independence.

not on the financial statements for any interim period within that year. Therefore, we are unable to and do not express any opinion on the unaudited condensed consolidated balance sheet as of March 31, 19X6, and the unaudited condensed consolidated statements of income, retained earnings (stockholders' equity), and cash flows for the three-month periods ended March 31, 19X6 and 19X5, included in the offering circular, or on the financial position, results of operations, or cash flows as of any date or for any period subsequent to December 31, 19X5.

1. At your request, we have read the 19X6 minutes of meetings of the stockholders, the board of directors, and [*include other appropriate committees, if any*] of the company as set forth in the minute books at June 25, 19X6, officials of the company having advised us that the minutes of all such meetings²² through that date were set forth therein; we have carried out other procedures to June 25, 19X6 (our work did not extend to the period from June 26, 19X6, to June 30, 19X6, inclusive), as follows:

- a. With respect to the three-month periods ended March 31, 19X6 and 19X5, we have—
 - (i) Read the unaudited condensed consolidated balance sheet as of March 31, 19X6, and the unaudited condensed consolidated statements of income, retained earnings (stockholders' equity), and cash flows^{23, 24} of the company for the three-month periods ended March 31, 19X6 and 19X5, included in the offering circular, and agreed the amounts contained therein with the company's accounting records as of March 31, 19X6 and 19X5, and for the three-month periods then ended.
 - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited condensed consolidated financial statements referred to in *a(i)* are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the offering circular. Those officials stated that the unaudited condensed consolidated financial statements are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements.
- b. With respect to the period from April 1, 19X6, to May 31, 19X6, we have—
 - (i) Read the unaudited condensed consolidated financial statements of the company for April and May of both 19X5 and 19X6, furnished us by the company, and agreed the amounts contained therein with the company's accounting records. Officials of the company have advised us that no financial statements as of any date or for any period subsequent to May 31, 19X6, were available.
 - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether (1) the unaudited condensed consolidated financial statements referred to in *b(i)* are stated on a basis substantially consistent with that of the audited consolidated financial

²² See footnote 3 of the Appendix.

²³ See footnotes 4 and 5 of the Appendix.

²⁴ Generally, accountants should recognize that the criteria for summarized financial information have not been established for entities other than SEC registrants.

statements included in the offering circular, (2) at May 31, 19X6, there was any change in the capital stock, increase in long-term debt or any decrease in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 19X6, unaudited condensed consolidated balance sheet included in the offering circular, and (3) for the period from April 1, 19X6, to May 31, 19X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in the total or per-share amounts of income before extraordinary items or of net income.

Those officials stated that (1) the unaudited condensed consolidated financial statements referred to in *b(ii)* are stated on a basis substantially consistent with that of the audited consolidated financial statements included in the offering circular, (2) at May 31, 19X6, there was no change in the capital stock, no increase in long-term debt, and no decrease in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 19X6, unaudited condensed consolidated balance sheet included in the offering circular, and (3) there were no decreases for the period from April 1, 19X6, to May 31, 19X6, as compared with the corresponding period in the preceding year, in consolidated net sales or in the total or per-share amounts of income before extraordinary items or of net income.

- c. As mentioned in *1b*, company officials have advised us that no financial statements as of any date or for any period subsequent to May 31, 19X6, are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after May 31, 19X6, have, of necessity, been even more limited than those with respect to the periods referred to in *1a* and *1b*. We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (i) at June 25, 19X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown on the March 31, 19X6, unaudited condensed consolidated balance sheet included in the offering circular or (ii) for the period from April 1, 19X6, to June 25, 19X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in the total or per-share amounts of income before extraordinary items or of net income.

Those officials referred to above stated that (i) at June 25, 19X6, there was no change in the capital stock, no increase in long-term debt, and no decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown on the March 31, 19X6, unaudited condensed consolidated balance sheet, and (ii) there were no decreases for the period from April 1, 19X6, to June 25, 19X6, as compared with the corresponding period in the preceding year, in consolidated net sales or in the total or per-share amounts of income before extraordinary items or of net income.

2. At your request, we have read the following items in the offering circular on the indicated pages.²⁵

<u>Item</u>	<u>Page</u>	<u>Description</u>
<i>a</i>	13	“History and Business—Sales and Marketing.” The table following the first paragraph.
<i>b</i>	22	“Executive Compensation—19X5 Compensation.”
<i>c</i>	33	“Selected Financial Data.” ²⁶

3. Our audits of the consolidated financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements taken as a whole. For none of the periods referred to therein, nor for any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions such as those enumerated above, and, accordingly, we express no opinion thereon.

4. However, at your request, we have performed the following additional procedures, which were applied as indicated with respect to the items enumerated above.

<u>Item in 2</u>	<u>Procedures and Findings</u>
<i>a</i>	We compared the amounts of military sales, commercial sales, and total sales shown in the offering circular with the balances in the appropriate accounts in the company’s accounting records for the respective fiscal years and for the unaudited interim periods and found them to be in agreement. We proved the arithmetic accuracy of such amounts of military sales and commercial sales to total sales for the respective fiscal years and for the unaudited interim periods. We compared such computed percentages with the corresponding percentages appearing in the offering circular and found them to be in agreement.

²⁵ In some cases it may be considered desirable to combine in one paragraph the substance of paragraphs 2 and 4. This may be done by expanding the identification of terms in paragraph 4 to provide the identification information contained in paragraph 2. In such cases the introductory sentences in paragraphs 2 and 4 and the text of paragraph 3 might be combined as follows: “At your request, we have also read the following information and have performed the additional procedures stated below with respect to such information. Our audit of the consolidated financial statements....”

²⁶ See footnote 10 of the Appendix.

Item
in 2

Procedures and Findings

b

We compared the dollar amounts of compensation (salary, bonus, and other compensation) for each individual listed in the table "Annual Compensation" with the corresponding amounts shown by the individual employee earnings records for the year 19X5 and found them to be in agreement. We compared the dollar amounts shown under the heading "Long-Term Compensation" on page 24 for each listed individual with corresponding amounts shown in an analysis prepared by the company from its accounting records and found such amounts to be in agreement.

c

We compared the amounts of net sales, income from continuing operations, income from continuing operations per common share, and cash dividends declared per common share for the years ended December 31, 19X5, 19X4, and 19X3, with the respective amounts in the consolidated financial statements on pages 27 and 28 and the amounts for the years ended December 31, 19X2 and 19X1, with the respective amounts in the consolidated financial statements included in the company's annual reports to stockholders for 19X2 and 19X1 and found them to be in agreement.

We compared the amounts of total assets, long-term obligations, and redeemable preferred stock at December 31, 19X5 and 19X4, with the respective amounts in the consolidated financial statements on pages 27 and 28 and the amounts at December 31, 19X3, 19X2, and 19X1, with the corresponding amounts in the consolidated financial statements included in the company's annual reports to stockholders for 19X3, 19X2, and 19X1 and found them to be in agreement.

5. It should be understood that we have no responsibility for establishing (and did not establish) the scope and nature of the procedures enumerated in paragraphs 1 through 4 above; rather, the procedures enumerated therein are those the requesting party asked us to perform. Accordingly, we make no representations regarding questions of legal interpretation²⁷ or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraphs; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above as set forth in the offering circular. Further, we have addressed ourselves solely to the foregoing data and make no representations regarding the adequacy of disclosures or whether any material facts have been omitted. This letter relates only to the financial statement items specified above and does not extend to any financial statement of the company taken as a whole.

²⁷ See footnote 7 to paragraph 9 of the Statement.

6. The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Had we performed additional procedures or had we conducted an audit or a review of the company's March 31, April 30, or May 31, 19X6 and 19X5, condensed consolidated financial statements in accordance with standards established by the American Institute of Certified Public Accountants, other matters might have come to our attention that would have been reported to you.

7. These procedures should not be taken to supplant any additional inquiries or procedures that you would undertake in your consideration of the proposed offering.

8. This letter is solely for your information and to assist you in your inquiries in connection with the offering of the securities covered by the offering circular, and it is not to be used, circulated, quoted, or otherwise referred to for any other purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be filed with or referred to in whole or in part in the offering document or any other document, except that reference may be made to it in any list of closing documents pertaining to the offering of the securities covered by the offering document.

9. We have no responsibility to update this letter for events and circumstances occurring after June 25, 19X6.

This Statement entitled Amendments to Statement on Auditing Standards No. 72, Letters for Underwriters and Certain Other Requesting Parties, was adopted unanimously by the fifteen members of the board.

Auditing Standards Board (1995)

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