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Amendment to statement on auditing standards no. 72, letters for underwriters and certain other requesting parties; Statement on auditing standards, 086

American Institute of Certified Public Accountants. Auditing Standards Executive Committee

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Amendment 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.)
Amendment 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.)

[Explanation]
This amendment reflects the changes for issuance of Statement on Standards for Attestation Engagements (SSAE) No. 8, Management’s Discussion and Analysis. It also renumbers existing footnotes 22 through 31. This amendment also includes new example R, an addition to the appendix of Statement of Auditing Standards (SAS) No. 72, Letters for Underwriters and Certain Other Requesting Parties (AICPA, Professional Standards, vol. 1, AU sec. 634). New language is shown in boldface italics; deletions are shown in strike-through. The amendment is effective for comfort letters issued on or after June 30, 1998. Early application is permissible.

[Text of Change]
20. Accountants, when issuing a letter under the guidance provided in this Statement, may not issue any additional letters or reports, under any other Statement, to the underwriter or the other requesting parties identified in paragraphs 3, 4, and 5 (hereinafter referred to as the underwriter) in connection with the offering or placement of securities, in which the accountants comment on items for which commenting is otherwise precluded by this statement, such as square footage of facilities.

22. This section (paragraphs 22 through 62) provides guidance on the format and possible contents of a typical comfort letter. It addresses how the comfort letter should be dated, to whom it may be addressed, and the contents of the introductory paragraph of the comfort letter. Further, it addresses the subjects that may be covered in a comfort letter:
   a. The independence of the accountants (paragraphs 31 and 32)
   b. Whether the unaudited financial statements and financial statement schedules included (incorporated by reference) in the
registration statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC (paragraphs 33 and 34)

c. Unaudited financial statements, condensed interim financial information, capsule financial information, financial forecasts, management's discussion and analysis (MD&A), and changes in selected financial statement items during a period subsequent to the date and period of the latest financial statements included (incorporated by reference) in the registration statement (paragraphs 29 and 35 through 53)

d. Tables, statistics, and other financial information included (incorporated by reference) in the registration statement (paragraphs 54 through 62)

e. Negative assurance as to whether certain nonfinancial information, included (incorporated by reference) in the registration statement complies as to form in all material respects with Regulation S-K (paragraph 57)

29. The accountants may refer in the introductory paragraphs of the comfort letter to the fact that they have issued reports on the following:

a. Condensed financial statements that are derived from audited financial statements [see SAS No. 42, Reporting on Condensed Financial Statements and Selected Financial Data (AICPA, Professional Standards, vol. 1, AU sec. 552)]

b. Selected financial data (see SAS No. 42)

c. Interim financial information [see SAS No. 71, Interim Financial Information (AICPA, Professional Standards, vol. 1, AU sec. 722)]

d. Pro forma financial information [see SSAE No. 1, Attestation Standards (AICPA, Professional Standards, vol. 1, AT sec. 300, “Reporting on Pro Forma Financial Information”)]


*Except for a review report on management's discussion and analysis (MD&A), the accountants should not refer to or attach to the comfort letter any restricted distribution use report, such as a report on agreed-upon procedures.
f. Management's discussion and analysis [see SSAE No. 8, Management's Discussion and Analysis (AICPA, Professional Standards, vol. 1, AT sec. 700)]

Such a reference should be to the accountants' reports that were previously issued, and if the reports were not included (incorporated by reference) in the registration statement, they may be attached to the comfort letter.\footnote{When the accountant does not perform a review or an examination of MD&A or does not attach or refer to a report on MD&A, the accountant may perform agreed-upon procedures with respect to items in MD&A subject to controls over financial reporting (see paragraph 55).} In referring to previously issued reports, the accountants should not repeat their reports in the comfort letter or otherwise imply that they are reporting as of the date of the comfort letter or that they assume responsibility for the sufficiency of the procedures for the underwriter's purposes. However, for certain information on which they have reported, the accountants may agree to comment regarding compliance with published SEC requirements \textit{rules and regulations adopted by the SEC} (see paragraphs 33 and 34). Accountants should not mention in a comfort letter reports issued in accordance with SAS No. 60, \textit{Communication of Internal Control Related Matters Noted in an Audit} (AICPA, Professional Standards, vol. 1, AU sec. 325), or any restricted distribution use reports issued to a client in connection with procedures performed on the client's internal control in accordance with SSAE No. 2, as amended by SSAE No. 6, \textit{Reporting on an Entity's Internal Control Over Financial Reporting} (AICPA, Professional Standards, vol. 1, AT sec. 400).

### Compliance With SEC Requirements

33. The accountants may be requested to express an opinion on whether the financial statements covered by their report comply as to form with the pertinent published accounting requirements of the SEC.\footnote{The term \textit{published phrase rules and regulations adopted by the SEC} is used because accountants should not be expected to be familiar with, or express assurances on compliance with, informal positions of the SEC staff.} This may be done substantially as follows:

In our opinion \[[include phrase “except as disclosed in the registration statement,” if applicable\], the \[identify the financial statements and}
financial statement schedules] audited by us and included (incorporated by reference) in the registration statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations adopted by the SEC.

If there is a material departure from the pertinent published rules and regulations adopted by the SEC requirements, the departure should be disclosed in the letter. An appropriate manner of doing this is shown in example K.

34. Accountants may provide positive assurance on compliance as to form with requirements under published SEC and the rules and regulations adopted by the SEC only with respect to those rules and regulations applicable to the form and content of financial statements and financial statement schedules that they have audited. Accountants are limited to providing negative assurance on compliance as to form when the financial statements or financial statement schedules have not been audited. (For guidance in commenting on compliance as to form, see paragraph 37 regarding unaudited condensed interim financial information, paragraph 42 regarding pro forma financial information,

**footnote:**

[2424] Certain financial statements may be incorporated in a registration statement under the Act by reference to filings under the Securities Exchange Act of 1934 (the 1934 Act). In those circumstances, the accountants may refer to whether the audited financial statements and financial statement schedules included (incorporated by reference) in the registration statement comply as to form in all material respects with the applicable accounting requirements of the 1934 Act and the related published rules and regulations adopted by the SEC [see example B (paragraph 64)]. However, the accountants should not refer to compliance with the provisions of the 1934 Act regarding internal accounting control. See SSAE No. 2, as amended by SSAE No. 6, Reporting on an Entity’s Internal Control Over Financial Reporting (AICPA, Professional Standards, vol. 1, AT sec. 400), paragraph 83.

[2425] Departures from published SEC requirements rules and regulations adopted by the SEC that require mention in a comfort letter ordinarily do not affect fair presentation in conformity with generally accepted accounting principles; however, if they do, the accountants will, of course, mention these departures in expressing their opinion and in consenting to the use of their report in the registration statement. If departures from published SEC requirements rules and regulations adopted by the SEC that require mention in a comfort letter either are not disclosed in the registration statement or have not been agreed to by representatives of the SEC, the accountants should carefully consider whether a consent to the use of their report in the registration statement should be issued.
Amendment to Statement on Auditing Standards No. 72

paragraph 44 regarding a forecast, and paragraph 57 regarding Regulation S-K items.26)

55. The accountants should refrain from commenting on certain matters in a comfort letter to which their competence as independent accountants has little relevance. Accordingly, except as noted in the next sentence, they should comment only with respect to information (a) that is expressed in dollars (or percentages derived from such dollar amounts) and that has been obtained from accounting records that are subject to the entity's controls over financial reporting (see paragraph 36) or (b) that has been derived directly from such accounting records by analysis or computation. The accountants may also comment on quantitative information that has been obtained from an accounting record if the information is of a type that is subject to the same controls over financial reporting as the dollar amounts. Accountants should not comment on matters primarily involving the exercise of management's business judgment. For example, changes between periods in gross profit ratios or net income may be caused by factors that are not necessarily within the expertise of accountants. The accountants should not comment on matters merely because they happen to be present and are capable of reading, counting, measuring, or performing other functions that might be applicable. Examples of matters that, unless subjected to the controls over financial reporting (which is not ordinarily the case), should not be commented on by the accountants include the square footage of facilities, number of employees (except as related to a given payroll period(s)), and backlog information.32 The accountants should not comment on tables, statistics, and other financial information relating to

26 Accountants should not comment in a comfort letter on compliance as to form of MD&A with rules and regulations adopted by the SEC; accountants may agree to examine or review MD&A in accordance with SSAE No. 8, Management's Discussion and Analysis.

32 Accountants generally will be unable to comment on nonfinancial data presented in MD&A. However, when the accountants have conducted an examination or a review of MD&A in accordance with SSAE No. 8, Management's Discussion and Analysis, they may agree to trace nonfinancial data presented outside MD&A to similar data included in the MD&A presentation. When the accountant does not perform a review or an examination of MD&A or does not attach or refer to a report on MD&A, the accountant may perform agreed-upon procedures with respect to items in MD&A subject to controls over financial reporting.
an unaudited period unless (a) they have performed an audit of the client's financial statements for a period including or immediately prior to the unaudited period or have completed an audit for a later period or (b) they have otherwise obtained knowledge of the client's internal control over financial reporting as provided for in paragraph 36 herein. In addition, the accountants should not comment on information subject to legal interpretation, such as beneficial share ownership.

57. Certain financial information in registration statements is included because of specific requirements of Regulation S-K. Accountants may comment as to whether this information is in conformity with the disclosure requirements of Regulation S-K if the following conditions are met.

a. The information is derived from the accounting records subject to the entity's controls over financial reporting, or has been derived directly from such accounting records by analysis or computation.

b. This information is capable of evaluation against reasonable criteria that have been established by the SEC.

The following are the disclosure requirements of Regulation S-K\(^3\) that generally meet these conditions:

- Item 301, "Selected Financial Data"
- Item 302, "Supplementary Financial Information"
- Item 402, "Executive Compensation"
- Item 503(d), "Ratio of Earnings to Fixed Charges"

Accountants may not give positive assurance on conformity with the disclosure requirements of Regulation S-K; they are limited to giving negative assurance, since this information is not given in the form of financial statements and generally has not been audited by the accountants. Even with respect to the above-mentioned items, there may be situations in which it would be inappropriate to provide negative assurance with respect to conformity of this information with Regulation S-K because conditions (a) and (b) above have not been met. Since information relevant to Regulation S-K disclosure requirements

\(^{33}\) Accountants should not comment in a comfort letter on compliance as to form of MD&A with rules and regulations adopted by the SEC; accountants may agree to examine or review MD&A in accordance with SSAE No. 8, Management's Discussion and Analysis.
other than those noted previously is generally not derived from the accounting records subject to the entity's controls over financial reporting, it is not appropriate for the accountants to comment on conformity of this information with Regulation S-K. The accountant's inability to comment on conformity with Regulation S-K does not preclude accountants from performing procedures and reporting findings with respect to this information.

[Text of Addition to Appendix]

Example R: Comfort Letter That Includes Reference to Examination of Annual MD&A and Review of Interim MD&A

19. This example assumes the following circumstances. The prospectus (part I of the registration statement) includes audited consolidated balance sheets as of December 31, 19X5 and 19X4, and audited consolidated statements of income, retained earnings (stockholders' equity), and cash flows for each of the three years in the period ended December 31, 19X5. Part I also includes an unaudited condensed consolidated balance sheet as of March 31, 19X6, and unaudited condensed consolidated statements of income, retained earnings (stockholders' equity), and cash flows for the three-month periods ended March 31, 19X6 and 19X5. Part II of the registration statement includes audited consolidated financial statement schedules for the three years ended December 31, 19X5. The accountants have examined the company's management's discussion and analysis (MD&A) for the year ended December 31, 19X5, in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 8; the accountants have also performed reviews of the company's unaudited condensed consolidated financial statements, referred to above, in accordance with SAS No. 71, and the company's MD&A for the three-month period ended March 31, 19X6, in accordance with SSAE No. 8. The accountant's reports on the examination and review of MD&A have been previously issued, but not distributed publicly; none of these reports is included in the registration

28 The example includes financial statements required by SEC regulations to be included in the filing. If additional financial information is covered by the comfort letter, appropriate modifications should be made.
statement. The cutoff date is June 23, 19X6, and the letter is dated June 28, 19X6. The effective date is June 28, 19X6.

Each of the comments in the letter is in response to a requirement of the underwriting agreement. For purposes of example R, the income statement items of the current interim period are to be compared with those of the corresponding period of the preceding year.

June 28, 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, and the related financial statement schedules, all included in the registration statement (no. 33-00000) on Form S-1 filed by the company under the Securities Act of 1933 (the Act); our reports with respect thereto are also included in that registration statement. The registration statement, as amended on June 28, 19X6, is herein referred to as the registration statement. Also, we have examined the company's Management's Discussion and Analysis for the year ended December 31, 19X5, included in the registration statement, as indicated in our report dated March 28, 19X6; our report with respect thereto is attached. We have also reviewed the unaudited condensed consolidated financial statements as of March 31, 19X6 and 19X5, and for the three-month periods then ended, included in the registration statement, as indicated in our report dated May 15, 19X6, and have also reviewed the company's Management's Discussion and Analysis for the three-month period ended March 31, 19X6, included in the registration statement, as indicated in our report dated May 15, 19X6; our reports with respect thereto are attached.

If the accountant has performed a review of the company's annual MD&A, the opening paragraph of the comfort letter should be revised accordingly.

The accountant has elected to attach the previously issued reports to the comfort letter (see paragraph 29).

See footnote 30 of the Appendix.
In connection with the registration statement—

1. We are independent certified public accountants with respect to the company within the meaning of the Act and the applicable rules and regulations thereunder adopted by the SEC.

2. In our opinion [include the phrase “except as disclosed in the registration statement,” if applicable], the consolidated financial statements and financial statement schedules audited by us and included in the registration statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.

3. 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 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 1, 19X6 and 19X5, included in the registration statement, or on the financial position, results of operations, or cash flows as of any date or for any period subsequent to December 31, 19X5.

4. We have not examined any management’s discussion and analysis of the company as of or for any period subsequent to December 31, 19X5; although we have made an examination of the company’s Management’s Discussion and Analysis for the year ended December 31, 19X5, included in the company’s registration statement, the purpose (and therefore the scope) of the examination was to enable us to express our opinion on such Management’s Discussion and Analysis, but not on the management’s discussion and analysis for any interim period within that year. Therefore, we are unable to and do not express any opinion on the Management’s Discussion and Analysis for the three-month period ended March 31, 19X6, included in the registration statement, or for any period subsequent to March 31, 19X6.

5. For purposes of this letter 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 and its subsidiaries as set forth in the minute books at June 23,
19X6, officials of the company having advised us that the minutes of all such meetings through that date were set forth therein; we have carried out other procedures to June 23, 19X6, as follows (our work did not extend to the period from June 24, 19X6, to June 28, 19X6, inclusive):

a. With respect to the three-month periods ended March 31, 19X6 and 19X5, we have inquired of certain officials of the company who have responsibility for financial and accounting matters whether 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 registration statement, comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.

b. With respect to the period from April 1, 19X6, to May 31, 19X6, we have—

(i) Read the unaudited consolidated financial statements of the company and subsidiaries for April and May of both 19X5 and 19X6 furnished to us by the company, officials of the company having advised us that no such 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 the unaudited consolidated financial statements referred to in item b (i) are stated on a basis substantially consistent with that of the audited consolidated financial statements included in the registration statement.

The foregoing procedures do not constitute an audit of financial statements conducted in accordance with generally accepted auditing standards. Also, they would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representations regarding the sufficiency of the foregoing procedures for your purposes.

6. Nothing came to our attention as a result of the foregoing procedures, however, that caused us to believe that—

a. The unaudited condensed consolidated financial statements described in item 5a do not comply as to form in all material

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32 See footnote 3 of the Appendix.
33 See footnote 4 of the Appendix.
34 See footnote 5 of the Appendix.
respects with the applicable accounting requirements of the
Act and the related rules and regulations adopted by the SEC.

b. (i) At May 31, 19X6, there was any change in the capital
stock, increase in long-term debt, or decrease in conso-
licated net current assets or stockholders' equity of the
consolidated companies as compared with amounts
shown in the March 31, 19X6, unaudited condensed con-
solidated balance sheet included in the registration
statement, or

(ii) For the period from April 1, 19X6, to May 31, 19X6,
there were any decreases, as compared to the corre-
sponding 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, except in
all instances for changes, increases, or decreases that
the registration statement discloses have occurred or
may occur.

7. As mentioned in item 5b, company officials have advised us that
no consolidated 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 item 5. We have inquired of certain officials of the
company who have responsibility for financial and accounting
matters whether (a) at June 23, 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 registration statement or (b) for the period
from April 1, 19X6, to June 23, 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.
On the basis of these inquiries and our reading of the minutes
as described in item 5, nothing came to our attention that
caused us to believe that there was any such change, increase,
or decrease, except in all instances for changes, increases, or
decreases that the registration statement discloses have
occurred or may occur.

8. This letter is solely for the information of the addressees and to
assist the underwriters in conducting and documenting their
investigation of the affairs of the company in connection with
the offering of the securities covered by the registration state-
ment, and it is not to be used, circulated, quoted, or otherwise
referred to within or without the underwriting group for any 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 registration statement or any other document, except that reference may be made to it in the underwriting agreement or in any list of closing documents pertaining to the offering of the securities covered by the registration statement.
This Statement entitled Amendment to SAS No. 72, Letters for Underwriters and Certain Other Requesting Parties, was adopted unanimously by the fifteen members of the board.

Auditing Standards Board (1997)

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