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Comment letters on Restricting the Use of an Auditor's Report

American Institute of Certified Public Accountants (AICPA)

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OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (504) 339-3800
FACSIMILE: (504) 339-3870

February 17, 1998

Ms. Judith M. Sherinsky, Technical Manager
Audit and Attest Standards, File 4275
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Sherinsky:

I have reviewed the Auditing Standards Board's proposed statement on auditing standards *Restricting the Use of an Auditor's Report*. I am in general agreement with the provisions of the statement, with the following suggestion.

Paragraph 14 would restrict the auditor's ability to add other parties as "specified" parties in a by-product report. I suggest the auditor should have the flexibility allowed by paragraph 15 to add parties to a by-product report using his professional judgment.

I hope these comments prove beneficial to the board's deliberations.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle", is written over a faint, larger version of the same signature.

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DGK:GCA:db

RESTRICT

Author: MIME:RHP-CPA@prodigy.net at INTERNET
Date: 2/15/98 7:44 PM
Priority: Normal
TO: Judith M. Sherinsky at AICPA3
Subject: EXPOSURE DRAFT FILE 4275

----- Message Contents -----

I have read the january 26, 1998 exposure draft on auditors and reports and agree with the draft in almost all respects. The only suggestion i have is to make the report on page 14; appendix B, fully follow the wording on page 11. Ex. add to the end of the report {and is not intended to be and should not be used by anyone other than the specified parties.}

thanks,

rowland h. perry, cpa

3

Author: MIME:lcornett@dps.state.nm.us at INTERNET
Date: 2/18/98 3:54 PM
Priority: Normal
Receipt Requested
TO: Judith M. Sherinsky at AICPA3
Subject: Restricting Use of Auditor's Report

----- Message Contents -----

Page 10, item 17. second line:

Word "consider" informing ...client...restricted use jsut doesn't seem to be adequate when item 18 requires wording in the restricted use report. Therefore, "consider" should be "require" in my opinion so that client is fully informed prior to the engagement.

4

KATCH, TYSON & COMPANY

Certified Public Accountants

191 WAUKEGAN ROAD
NORTHFIELD, ILLINOIS 60093-2726
(847) 446-3700
FAX NO. (847) 446-7514

February 23, 1998

Ms. Judith M. Sherinsky
Technical Manager,
Audit and Attest Standards, File 4275
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Sherinsky:

I have read the Proposed Statement on Auditing Standards, Restricting the Use of an Auditor's Report. The letter from the chairman and director preceding the summary states that the proposed statement is particularly applicable to audits of financial statements of small businesses.

While I understand the thrust and applicability of the statement, I can assure you that the average member of the AICPA who audits simple businesses will have no idea as to its applicability. I, strongly, suggest that examples be provided to assist the auditor to apply the statement.

Sincerely,



Ronald S. Katch

RSK:mvr



U.S. Department
of Transportation

**Maritime
Administration**

400 Seventh Street, S.W.
Washington, D.C. 20590

March 19, 1998

Ms. Judith Sherinski
Technical Manager
Audit and Attest Standards
File 4275
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Sherinski:

The Maritime Administration provides Title XI mortgage financing to domestic and international companies for the construction of certain types of vessels. As part of our administration of guaranteed loans we establish financial covenants which each company is required to maintain during the life of the loan. We rely on audited financial statements as that major source for monitoring compliance.

We are writing to address the exposure draft for restricting the use of auditor's reports, and are particularly concerned with the "specified parties" aspects which may involve our loan participants. We have found it most efficient and effective to use the financial covenants and tests of pre-existing creditor arrangements particularly where such arrangements are either significant or relevant to our financing. In many instances, financial tests are not in accordance with GAAP but are derived in part from information found in annual audited financial statements. We are concerned whether creditors with similar financial tests receive the same reports on tests results. Each credit arrangement may not specifically address other credit arrangements and creditors may not be considered "specified parties" since they may not have been recognized in an original loan agreement. We are also concerned that after financial covenants and tests are "piggy-backed" by subsequent creditors, the initial creditor may, change financial tests without informing subsequent creditors. If the changed reports are restricted then the remaining creditors would not be aware of such changes.

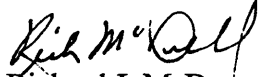
We suggest that on page 10, the first sentence of paragraph 15 of the draft be changed from "the auditor may agree to add other parties ..." to "the auditor would add other parties...." The need for restriction of reports should not be used surreptitiously. Ideally, the auditor should be permitted by the standard to require the company to add "specified parties" who have a need for restricted reports. At a minimum the auditor should be a party to the deliberations as to adding specified parties and should document the rationale for why certain creditors (as applicable) were not included as "other specified parties".



2

Please keep us informed of your deliberations and we would be pleased to provide additional information and comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Rich McDonnell". The signature is written in a cursive style with a large initial "R" and "M".

Richard J. McDonnell, Director
Office of Financial Approvals

cc:

James J. Zok

Ms. Sherinsky,

April 6, 1998

I have reviewed the January 26, 1998 exposure draft and I generally agree, except for item seven (7) on page 8. Any internal control findings that result from an unrestricted audit of the financial statements conducted under GAAP using GAAS should be treated as any other part of the audit report. To say that the audit was not conducted specifically to evaluate internal controls "begs the question". There were times in the past when CPA's attempted to restrict the use of all portions of their reports only to those to whom they were addressed. Restricting the use of the "Management Letter" or any other communication on internal controls or management weaknesses is nothing more than residual thinking from those by-gone days. Also, whether these are considered significant findings or not is a judgement call at the time of the audits usually based on limited samples and should not have any bearing on the distribution of the findings.

As you are aware, there are numerous examples of seemingly minor questions discovered by the general purpose auditors of an organization that upon additional investigation by people with more detailed knowledge of the specific areas resulted in significant issues that had major impact upon the organization.

Other users of the audited organization's financial statements such as creditors, proposed lenders, and prospective investors should have unrestricted access to all information that results from an audit so that they may make their own determination as to the implications of any findings. To deny them access to any portion of the results or to attempt control of their use of the information is unconscionable.

Richard D. Ryerson
Coordinator of Evaluation and Field Audit
State Board for Technical and Comprehensive Education

April 8, 1998

Ms. Judith M. Sherinsky
Technical Manager
Audit and Attest Standards
File 4275
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Sherinsky:

The FDIC's Division of Supervision is pleased to comment on the AICPA's exposure draft of the proposed Statement on Auditing Standards, "Restricting the Use of an Auditor's Report," dated January 26, 1998. We understand that the proposed standard is intended to provide auditors with guidance that will enable them to determine whether an engagement requires a restricted-use report and, if so, what elements to include in that report.

It is our understanding that the AICPA's Statement on Auditing Standards No. 75, "Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement" (SAS 75), requires that the specified users of an independent public accountant's report on the results of applying agreed-upon procedures (which includes a report on a "directors' examination" of a depository institution) be identified in the report. In addition, the specified users must agree, normally in writing, to the procedures being performed and accept responsibility for the sufficiency of the procedures.

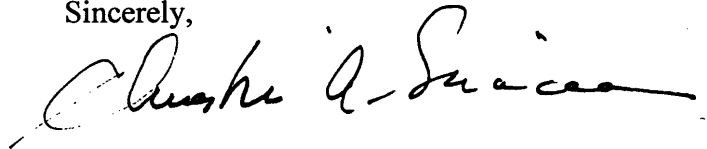
Some depository institutions' managers and their accountants have interpreted SAS 75 to preclude them from sharing the independent public accountant's report on agreed-upon procedures (or directors' examinations) with the federal or state banking agencies without their being named and agreeing to the procedures. However, the FDIC and other federal banking agencies expect to be able to review agreed-upon procedures reports on their supervised institutions as needed. The FDIC derives its legal authority to review all of a supervised bank's books and records from Section 10(b) of the Federal Deposit Insurance Act. The FDIC and the other federal banking agencies do not consider themselves "users" of the reports as that term is described in SAS 75. Rather, examiners review these reports in order to improve their-

understanding of the areas of the institution for which procedures were performed and to assist them in identifying any weaknesses or deficiencies in these areas (including whether there has been inadequate coverage of the institution's high risk activities and operations). Currently, an institution or its accountant may believe that SAS 75 requires the FDIC to be listed as a "user" of an agreed-upon procedures report; however, the FDIC will not provide written "agreement" or take responsibility for the sufficiency of the procedures.

In order to clarify this issue, we suggest that another sentence or footnote be added to paragraph 3 of the proposed standard explaining that any federal or state agency with authority to regulate and/or supervise the client may review reports that are restricted as to use and that such an agency need not be expected to accept responsibility for the sufficiency of the procedures performed as would a "user."

We appreciate the opportunity to comment on this exposure draft. Should you wish to further discuss our comments, please feel free to contact Examination Specialist Doris L. Marsh of the Accounting Section (202/898-8905).

Sincerely,

A handwritten signature in black ink, appearing to read "Christie A. Sciacca". The signature is written in a cursive style with a long horizontal flourish at the end.

Christie A. Sciacca
Associate Director

For Reference
Do Not Take
From the Library

May 6, 1998

File Ref. Nos. 1120
4275

To Members of the Auditing Standards Board:

Here are the comment letters received to date on the exposure draft of the Proposed Statement on Auditing Standards, *Restricting the Use of an Auditor's Report*.

<u>Name/Affiliation</u>	<u>Location</u>
8. James E. Brown, CPA	Joplin, MO
9. Deloitte & Touche LLP	Wilton, CT
10. Herbert A. Maguire, CPA Commonwealth of Pennsylvania Office of the Budget Comptroller Operations	Harrisburg, PA
11. Arthur Andersen LLP	Boston, MA
12. Coopers & Lybrand LLP	Jersey City, NJ
13. Grant Thornton LLP	New York, NY

Please call me at 212/596-6031 if I may be of assistance to you .

Sincerely,



Judith M. Sherinsky
Technical Manager
Audit and Attest Standards

Enclosures

8

Author: MIME:102420.3137@compuserve.com at INTERNET

Date: 4/25/98 3:51 PM

Priority: Normal

TO: Judith M. Sherinsky at AICPA3

Subject: Comments on Exposure Draft of Proposed SAS on Restricting the Use of an Auditor's Report

----- Message Contents -----

P. O. Box 1824

Joplin, MO 64802-1824

April 25, 1998

Dear Judith

Please excuse this somewhat informal letter to submit my comments on the exposure draft. The comments contained herein are strictly my own and do not reflect any position of my firm, Baird, Kurtz & Dobson.

I am generally supportive of the exposure draft. However, I offer the following comments for consideration by the Auditing Standards Board and the Task Force.

1. Paragraph 12 of the proposed SAS appropriately provides that including a general-use report and a restricted-use report in the same combined report results in restriction of its use to only the specified parties. The proposed SAS also amends paragraph 47 of SAS 75 to provide that inclusion of separate general-use and restricted-use reports in the same document, but not in a combined report, does not result in restriction of use of all the reports to only the specified parties. I am supportive of this change. However, I believe the provisions of paragraph 12 would be strengthened if it explicitly permitted inclusion. This would be consistent with the proposed change in SAS 75 and clarify the meaning of paragraph 12 by way of comparison.
2. I was amazed that the changes proposed in the auditing standards are not also proposed for the attestation standards. Those standards contain similar issues and provisions to those addressed in much of the exposure draft. In particular, as SSAE 4 mirrors SAS 75 except for the difference in subject matter covered, not amending the attestation standards at the same time creates conflicts and promotes confusion.

Failing to make such amendments will result in existence of standards that are in direct conflict in some circumstances and in indirect conflict in others. For example, AT600.48 contains the same provisions as paragraph 47 of SAS 75 regarding combined or included reports. If not amended, AT600.48 would result in restriction of all reports in circumstances where a separate restricted-use report under the attestation standards and a separate general-use report under either the auditing or attestation standards are in the same document. This result would be different if the restricted-use report were under the auditing standards. Also, which provisions would apply if a general-use report under either the auditing or the attestation standards, a restricted-use report under the auditing standards, and a restricted-use report under the attestation standards are to be in the same document?

I strongly suggest amending the attestation standards at the same time and in the same manner as the auditing standards.

3. The order and logic of paragraph 17 of the proposed SAS are questionable. The main point is that the auditor is not responsible for controlling the distribution of restricted-use reports by other than the auditor. Also, the reasons for this provision are broader than just those in paragraph 3.

The language in paragraph 17 is also flawed or incomplete in that it refers only to consideration of informing the client. In many circumstances, the client is not a specified party entitled to use a restricted-use report. The requirement to consider informing the client should also include informing the specified parties.

I suggest revising the wording of paragraph 17 as follows with footnote 5 being appended to the last sentence:

"An auditor is not responsible for controlling the distribution of restricted-use reports by other than himself or herself. Accordingly, a restricted-use report should alert readers to the restriction on its use by stating that the report's use is restricted to the specified parties and that it is not intended to be and should not be used by anyone other than the specified parties. An auditor should consider informing the specified parties, and his or her client if the client is not a specified party, that a restricted-use report is not intended for distribution to other than the specified parties.⁵"

4. Footnote 5 appropriately acknowledges that some restricted-use reports are required to be made available to the public. It is my understanding that one of the primary objectives of this statement is to eliminate references in the auditor's report to the report being a matter of public record.

If this is the case, I suggest that the final SAS amend AU622.10, AU622.33, AU623.08 and AU9623.47-.54 to eliminate the requirement to include the statement "However, this report is a matter of public record and its distribution is not limited." in the report. I also suggest explicitly prohibiting such a statement in a restricted-use report. If not prohibited, some auditors may continue to include such a statement while others will not. This would be unnecessarily confusing to readers and specified parties.

Also note that this language is prescribed in SOP 98-3 and in certain A & A Guides. Conforming changes should be made to those documents. Finally, SSAE 4 (AT600..10, 600.33 and Footnote 6) contain the same required language as AU622 and should also be amended.

I appreciate the opportunity to submit these comments for consideration by the Task Force and the Auditing Standards Board. I hope all is well with you and your family and with the Board members and staff. I continually miss the interaction with the Board members and staff that I enjoyed during my term on the Board. Please contact me if further clarification of my comments is needed or I may

otherwise be of assistance.

Sincerely yours,

James E. Brown CPA

9

**Deloitte &
Touche LLP**



Ten Westport Road
P.O. Box 820
Wilton, Connecticut 06897-0820

Telephone: (203) 761-3000
ITT Telex 66262
Facsimile: (203) 834-2200

April 28, 1998

Ms. Judith M. Sherinsky
Technical Manager
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: File 4275

Dear Ms. Sherinsky:

We are pleased to comment on the Proposed Statement on Auditing Standards, *Restricting the Use of an Auditor's Report*.

We support amending existing standards to provide guidance on restricting the use of an auditor's report, and believe that the proposed guidance should help reduce misunderstandings as to the nature and rationale of restricting the use of reports. However, we do have some recommendations for clarifying the proposed standard concerning several frequently occurring general use reporting scenarios, as described in the attachment to this letter. The attachment also contains several editorial comments for your consideration.

Please contact John Fogarty at (203) 761-3227 if you wish to discuss our comments.

Sincerely,

Deloitte & Touche LLP

OTHER COMMENTS

Paragraph 1

We understand that the intent of the nonapplicability of the proposed standard to SAS No. 70 and SAS No. 72 reports is to retain the special restriction language included in the reports under SAS Nos. 70 and 72; however, we believe that the general concepts of the proposed standard are applicable to such other engagements. Accordingly, we recommend that consideration be given to revising paragraph 1 to state that paragraph 18 of the proposed standard does not apply to reports issued under SAS No. 70 or SAS No. 72.

Paragraph 5

We do not believe that it was intended that the proposed standard preclude the issuance of a general use report that first expresses an opinion on the presentation's conformity with generally accepted accounting principles in addition to the expression of an opinion on the basis of a contractual agreement or regulatory provisions (e.g., statutory-basis financial statements of an insurance enterprise issued for general use, as permitted by Statement of Position 95-5; bond-resolution-basis financial statements of public sector entities prescribed by certain states). We are concerned that auditors may misinterpret paragraph 5 to preclude them from issuing such general use reports. Accordingly, we recommend that a footnote be added to paragraph 5 to clarify that the proposed standard does not preclude the issuance of such reports as general use reports.

Paragraph 12 and Appendix A

It is unclear what constitutes a "combined report." Paragraph 12 discusses combined reports covering both restricted-use and general-use subject matter or presentations, and states that "the use of the combined report should be restricted to the specified parties." It would appear that a single report is being referred to; if that is true, the proposed standard does not address the frequently occurring situation of when several reports (general use and restricted use reports) are *bound together* in one document, such as occurs in the public sector arena.

Appendix A confuses the matter somewhat further in that the explanation of the proposed change discusses the inclusion of a separate general-use report in a document containing an agreed-upon procedures report, and then refers to that situation as a "combined" report.

We believe that the term "combined report" should be used only for a *single* report that covers more than one reporting topic and that such term should not be used for situations in which a general use report and a restricted use report are *bound together* in one report document. Accordingly, we recommend that guidance be added to state that a report package that

contains multiple reports would be considered a restricted-use document if any one of the reports contained therein is a restricted-use report, and that a separate package of any general-use report(s) and related financial presentation(s) be created for general use purposes, if any.

Paragraph 17

We agree that the auditor is not responsible for controlling the distribution of a restricted-use report and that a statement in such report that use of the report by others is not intended should sufficiently alert readers to the restriction on the use of such report. We recommend, however, that a footnote be added that the proposed standard does not preclude the auditor, in connection with establishing the terms of the engagement, to reach an understanding with the client that the intended use of the report will be restricted, and to obtain the client's agreement (and if desired, an indemnification by the client and specified parties) that the client (and specified parties) will not distribute the report to parties other than those identified in the report.

EDITORIAL COMMENTS

Paragraph 6

We recommend that paragraph 6 be revised to the singular tense as is used throughout the document when referring to an audit. Accordingly, "agreed-upon procedures engagements" and "the reports on the application of such procedures are not appropriate" should be replaced with "an agreed-upon procedures engagement" and "the report on the application of such procedures is not appropriate," respectively.

Paragraph 10

Paragraph 10 states that "an auditor may issue a by-product report in connection with other engagements conducted in accordance with generally accepted auditing standards," but no example is provided as to what constitutes "other engagements." We recommend that an example be provided.

Appendix B

We believe that the third bullet of paragraph 11 of SAS 60 should also be amended as follows to be consistent with the proposed standard: "Include the restriction on ~~use distribution~~ as discussed in paragraph .10."

Bureau of Audits

Bell Tower - 6th Floor
303 Walnut Street
Harrisburg, PA 17101-1830



Commonwealth of Pennsylvania
Office of the Budget
Comptroller Operations

Main Line: (717) 783-0114
Single Audit: (717) 783-9120
FAX: (717) 783-0361

April 28, 1998

Ms. Judith M. Sherinsky, Technical Manager
Audit and Attest Standards
File 4275
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Sherinsky:

We have reviewed the Exposure Draft, Proposed Statement on Auditing Standards, *Restricting the Use of an Auditor's Report* and Amendments of SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit*, and SAS No. 75, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*, and have no comments to offer at this time.

Thank you for the opportunity to comment. Should you have any questions, please contact me at (717) 783-0114.

Sincerely,

Herbert A. Maguire, CPA
Director

ARTHUR ANDERSEN

May 1, 1998

Arthur Andersen LLP

Ms. Judith M. Sherinsky, Technical Manager,
Audit and Attest Standards,
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

225 Franklin Street
Boston MA 02110-2812
617 330 4000

RE: File 4275, Exposure Draft of Proposed Statement on Auditing Standards,
Restricting the Use of an Auditor's Report

Dear Ms. Sherinsky:

The following are our comments on the proposed Statement on Auditing Standards (SAS) titled, *Restricting the Use of an Auditor's Report*, and the related amendments to SAS Nos. 75 and 60.

We generally concur with the proposed standard and amendments, and in particular, the clarifications that (a) auditors are not responsible for controlling the distribution of the reports they issue, and (b) auditors may restrict the use of a report that is a general-use report.

We do, however, have the following recommendations for the Board's consideration:

Paragraph 2. In the first sentence, we are not sure what circumstances would merit the inclusion of the word "...ordinarily are not restricted".

Paragraph 2. Footnote 4-This footnote has a negative construction ("Nothing in this Statement precludes an auditor from restricting the use of any report.") and, thus, does not make clear that an auditor should be able to restrict the use of any report. Delete this footnote and replace it with a new Footnote 4 which states "4However, the auditor may restrict the use of any report."

Paragraph's 9 and 10- Paragraph 9 discusses the reasons that by-product reports should be restricted. Paragraph 10, which discusses the issuance (not restriction) of by-product reports, logically follows the discussion in paragraph 8. This is corrected by reversing the order of the paragraphs (e.g., paragraph 9 becomes paragraph 10 and vice versa).

Paragraph 12- In order to clarify the term "specified parties" at the end of the sentence, we recommend that letter a) be revised as follows: "...a) subject matter or presentations that require a restriction on use to specified parties and..."

ARTHUR ANDERSEN

Ms. Judith M. Sherinsky

May 1, 1998

Page 2

Paragraph 17-We recommend revising this paragraph to the following: "The auditor may wish to explain to the client the reasons for restricting the use of the report (see paragraph 3.) However, the auditor is not responsible for controlling the distribution of restricted-use reports. A restricted-use report should alert readers to the restriction on the use of the report by stating that the report's use is restricted to the specified parties and that use of it by others is not intended.⁵".

Appendix B-We note that the distribution of SAS 60 reports to other unnamed third parties is not precluded by this proposal (although we recognize that as unnamed, they would not be able to assert reliance on the report). As such, the client may be contractually bound (e.g., through a loan agreement) to provide such a report to an unspecified user. We recommend, therefore, that the revision be made to SAS no. 60 paragraph 10 as follows (paragraph 12 would remain unchanged): "when there are requirements established by governmental authorities or set forth in contractual agreements between the entity and a third party to furnish such reports, specific reference to such regulatory authorities or specified third parties should be made."

We would be pleased to discuss our comments and suggestions at your convenience.

Very truly yours,



Arthur Andersen LLP

**Coopers
& Lybrand**

Coopers & Lybrand L.L.P.

a professional services firm

101 Hudson Street
Jersey City, NJ 07302

telephone (201) 521-3004

facsimile (201) 521-3020

May 5, 1998

Ms. Judith M. Sherinsky
Technical Manager, Audit and Attest Standards
File 4275
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Judith:

We are pleased to have the opportunity to submit our comments on the Proposed Statement on Auditing Standards, *Restricting the Use of an Auditor's Report*. We support the issuance of guidance on this subject.

We have the following comments for consideration.

1. Our primary concern deals with the use of restricted-use reports by regulators. This is an area of some confusion, and we believe the final document could do more to clarify the situation. Under the present construction, supported by the ED, regulators can only be "users" of restricted-use reports if they are explicitly acknowledged as such. This is not a problem when reporting on subject matter or presentations based on measurement or disclosure criteria contained in regulatory provisions, or when a by-product report provides for such use, such as in SAS No. 60 or certain reports in SAS No. 62. It is a problem, however, under SAS No. 75 (and SSAE No. 4).

The inclusion of footnote 5 in the ED, while appropriate, does not, in our view, solve the problem. The fact that some restricted-use reports are required by law or regulation to be made available to the public does not deal with the situation where a regulator, with oversight responsibility for an entity, requires access to a SAS No. 75 restricted-use report, but is unwilling to provide the assurances as to sufficiency of the procedures required by that standard. This precise situation has occurred on several occasions recently. One example is the reports rendered pursuant to the initiative of the Derivatives Policy Group. A more recent example is the proposed agreed-upon procedures report referred to in the comment letters of the AICPA with respect to the SEC's proposed broker-dealer and transfer agent reporting relating to the Year 2000 Issue.

We suggest that the final document include an explicit allowance for regulatory agencies with oversight responsibility for the entity to be permitted access to such reports. In so doing, we do not believe that the reports should be "filed" with the agency, since that would treat the agency as a "user," but that such access for oversight purposes be viewed as not violating the expressed intent of paragraph 17. This could be accomplished by expanding footnote 5 to read:

In some cases, restricted-use reports filed with regulatory agencies are required by law or regulation to be made available to the public. Also, a regulatory agency, as part of its oversight responsibility for an entity, may require access to restricted-use reports in which they are not named as a user.

2. The discussion in the Summary (which we recognize will not be part of the final document) and the introductory paragraph of Appendix A (which will) both indicate that a separate general-use report can be included in a document containing an agreed-upon procedures report. It is not clear why this explanation is provided, since that was always an option. Furthermore, the revised paragraph 47 of SAS No. 75 does not explicitly permit this; it only doesn't address it.

We are concerned that this change leaves open the possibility for a document containing separate general-use and restricted-use reports to be given general distribution. We do not believe that is the intention, nor do we believe it is appropriate. If a combined report needs to be restricted, then separate reports bound together should receive the same treatment. A document containing a restricted-use report, whether or not bound with a general-use report, should be subject to the provisions of paragraph 12 of the ED. That should be made clear.

3. Paragraph 18 of the ED introduces a standard set of language for all restricted-use reports (other than SAS No. 70 and 72). However, the amendment to SAS No. 60, in Appendix B, does not use this language. We suggest correcting Appendix B.

4. We recognize that what is being proposed is a SAS. In the event that this becomes a model for an amendment to the Statements on Standards for Attestation Engagements, we note that the description covered by paragraph 4.a. would need to be expanded to also cover subject matter or presentations based on specified criteria that have been agreed upon by the asserter and the user.

Please contact James S. Gerson at (201) 521-3004 if you wish to discuss these comments.

Coopers + Lybrand L.L.P.

May 5, 1998

Ms. Judith Sherinsky
Technical Manager
Audit and Attest Standards
File 4275
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Grant Thornton 
GRANT THORNTON LLP Accountants and
Management Consultants
The U.S. Member Firm of
Grant Thornton International

Dear Ms. Sherinsky:

We appreciate the opportunity to comment on the proposed Statement on Auditing Standards (SAS), *Restricting the Use of an Auditor's Report*. We support the issuance of the proposed SAS by the AICPA Auditing Standards Board and submit the following comments for the Board's consideration:

1. Summary - In the seventh bullet, the document indicates that an auditor would be allowed to include a separate general use report in a document that also contains a restricted-use report. The reason that this would be allowed is not clear.
2. Paragraph 2 - To appropriately follow the concept in the first sentence, the second sentence should read, " Thus, auditor's reports on financial statements"
3. Paragraph 15 - An example of the form of the written affirmative acknowledgement referred to in this paragraph would be very helpful.
4. Paragraph 17 - We believe that the words "consider informing" should be changed to "inform" in the first sentence of paragraph 17.
5. Paragraph 17 - The concepts noted in footnote 5 should be introduced earlier in the proposed SAS. Consider moving the reference to footnote 5 into paragraph 3.
6. Paragraph 17 - The end of the last sentence should be changed to read, "...to the specified parties and that it is not intended to be and should not be used by others."
7. Paragraph 18 - The example should be changed as follows, ".....and should not be used by anyone other than these specified parties." The use of the word "these" is necessary because the report does not otherwise define who the "specified parties" are.

Ms. Judith Sherinsky

AICPA

May 5, 1998

8. Appendix A - Although the exposure draft did not specifically indicate that the term "specified users" would be changed to "specified parties" throughout AU Section 622, *Engagements to Apply Agreed-upon Procedures to Specified Elements, Accounts or Items of a Financial Statement*, we assume that this will be done.
9. Appendix B - It would seem that the report letter language in SAS 60 should be changed to fully conform with this proposed SAS. Thus the last paragraph should add, "...and is not intended to be and should not be used by anyone other than these specified parties."

If you should have any questions on any of the matters discussed in this letter please contact Mr. John L. Archambault at (312) 565-4731.

Sincerely,

A handwritten signature in cursive script that reads "Grant Thornton LLP".

Grant Thornton LLP

Comment Letters

KPMG Peat Marwick LLP

55 East 52nd Street
New York, NY 10055

Telephone 212 909 5400

Fax 212 909 6699



#14

**For Reference
Do Not Take
From the Library**

May 6, 1998

Ms. Judith M. Sherinsky
Technical Manager, Audit and Attest Standards, File 4275
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

**Re: File 4275
Proposed Statement on Auditing Standards
Restricting the Use of an Auditor's Report**

Dear Ms. Sherinsky:

KPMG Peat Marwick LLP supports the issuance of the Auditing Standards Board's proposed Statement on Auditing Standards, *Restricting the Use of an Auditor's Report*, ("Proposed Statement"). However, we have the following comments on the Proposed Statement:

- **Separate Reports** -- The proposed amendment (Appendix A to the Proposed Statement) to paragraph 47 of SAS No. 75, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*, would permit auditors to include a separate general-use report in a document containing an agreed-upon procedures report. While the proposed amendment retains the restriction on a "combined" report, it is silent on whether separate reports (restricted-use and general-use) included in the same bound document should be restricted. We suggest that guidance be provided both in paragraph 12 of the Proposed Statement and in the proposed amendment to SAS No. 75 to address whether restriction of the overall document is necessary in these situations. We believe that the guidance provided in paragraph 48 of AT600 *Agreed-Upon Procedures Engagements* underscores the need to provide SAS-level guidance.
- **Attestation Engagements** -- We suggest that guidance be provided for attestation engagements through a separate SSAE or in connection with the Board's "Attestation Recodification" project.



Member Firm of
KPMG International

Page 2

Ms. Judith M. Sherinsky

Technical Manager, Audit and Attest Standards, File 4275

May 7, 1998

- Paragraph 10 -- In order to clarify this paragraph, provide examples of "other" engagements conducted in accordance with generally accepted auditing standards. We may have further comments on any examples provided.
- Paragraph 17(footnote 5) -- Consider adding another sentence to this footnote as follows: "The limitations on the use of restricted-use reports are not intended to restrict reasonable access, authorized by the client, to restricted-use reports by regulators in the performance of their authorized duties." We believe that the sentence provides further clarification regarding the access of restricted-use reports by certain parties who are not, and will not become, specified users.
- Other
 - Paragraphs 1-3 -- The term "auditors" (plural possessive) is used in these paragraphs, however "auditor's" (singular possessive) is used in paragraphs 4 and 18.
 - Paragraphs 11,14 -- Consider inserting "Board of Directors" as one of the restricted parties (Appendix B to the Proposed Statement lists board of directors, trustees, etc. as being potential users of a restricted use report).
 - Paragraph 17 -- Given the reporting requirements in paragraph 18, we believe the first sentence should be revised to state that the auditor should not agree¹ orally or in writing to distribution by the client to non-specified parties.

We would be pleased to discuss our comments with you.

Very truly yours,



KPMG Peat Marwick LLP

¹ Including Accountants' consents (such as those required by Section 7 of the 1933 Act which requires accountants' specifically to consent to the use of their reports on financial statements and schedules)



May 6, 1998

Mrs. Judith M. Sherinsky, Technical Manager
Audit and Attest Standards
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft: Proposed Statement on Auditing Standards, "Restricting the Use of an Auditor's Report"

Dear Mrs. Sherinsky:

One of the objectives that the Council of the American Institute of CPAs established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee ("TIC"). This communication is in accordance with that objective.

TIC has reviewed the above referenced exposure draft and is providing the following comments and suggestions for your consideration.

Paragraph 12 of the proposed SAS indicates that "when an auditor issues a combined report covering both a) subject matter or presentations that require a restriction on use and b) subject matter or presentations that ordinarily do not require such a restriction, the use of the combined report should be restricted to the specified parties."

Reports required by *Government Auditing Standards* and OMB Circular A-133 include reports on (1) the financial statements, (2) compliance with laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on the financial statement amounts, and (3) the scope of testing of the auditee's internal control over financial reporting and the results of those tests. In addition, reports on compliance and internal controls are considered "by-product reports" pursuant to paragraphs 7-11 of the proposed SAS and the use of such reports should be restricted.

Some auditors include the information on compliance and internal controls in their report on the financial statements. TIC members understand that in this situation the entire report should be restricted pursuant to paragraph 12. Other auditors do not include the information on compliance and internal controls in their report on the financial statements. Instead, the

auditor's report on the financial statements refers to separate reports containing that information. The following language is normally used:

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of Example Not-for-Profit Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

It is unclear whether the inclusion of this statement in the auditor's report on the financial statements effectively renders such report a restricted-use report. TIC members have been advised that this was not the intent of the Restricted Use Task Force. In addition, *Government Auditing Standards* and OMB Circular A-133 do not prohibit auditors from issuing a separate report on the financial statements in accordance with the requirements of Generally Accepted Auditing Standards if the financial statement audit is for purposes other than to comply with requirements calling for a *Government Auditing Standards* audit. Indeed, auditors frequently issue a separate report on the financial statements in accordance with the requirements of Generally Accepted Auditing Standards for purposes such as bond offerings.

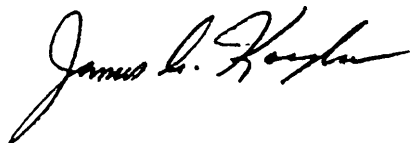
In order to clarify the issue, the members of TIC suggest that the phrase "combined report" be defined to exclude an auditor's report on the financial statements that states that the auditor is issuing additional reports on compliance and internal controls in accordance with *Government Auditing Standards*. Another solution could be to include a footnote to paragraph 12 such as the following:

This paragraph is not intended to preclude an auditor performing an audit in accordance with *Government Auditing Standards* and OMB Circular A-133 from issuing a separate report on the financial statements in accordance with the requirements of Generally Accepted Auditing Standards if the financial statement audit is for purposes other than to comply with requirements calling for a *Government Auditing Standards* audit.

This paragraph is also not intended to preclude an auditor from binding presentations that do not require a restriction with presentations that require a restriction. For example, auditors issuing a separate report on the financial statements in accordance with Generally Accepted Auditing Standards and *Government Auditing Standards*, and that refers to separate restricted reports prepared pursuant to *Government Auditing Standards*, need not add the wording in paragraph 18 to the report on the financial statements.

We appreciate the opportunity to present these comments on behalf of PCPS member firms.
We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "James A. Koepke". The signature is fluid and cursive, with a long, sweeping underline that extends to the left.

James A. Koepke, Chair
PCPS Technical Issues Committee

JAK:lec

cc: PCPS Executive and Technical Issues Committees
Mary Foelster (for GAAC)

Loscalzo & Company, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

May 4, 1998

Judith Sherinsky
Technical Manager
Audit and Attest Standards, File 4275
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement on Auditing Standards
"Restricting the Use of An Auditor's Report"

Dear Ms. Sherinsky:

I recently chaired a New Jersey Society of CPAs' Accounting and Auditing Standards Committee to respond to the above exposure draft. The majority of the committee believe that auditors should never be permitted to restrict what I would call historical cost stand alone financial statements. Their response to the exposure draft will, among other things, suggest deleting *Footnote 4*.

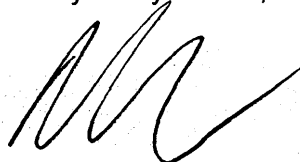
Although I believe all audits, regardless of size, should be completed by professional, competent, and ethical individuals in accordance with all of the appropriate standards, I believe that an audit engagement is a contract with a client to provide a specified service at a specified price. Accordingly, I believe that if both parties agree that a report should be restricted, why should a standard say otherwise? I can think of several valid situations where this may exist.

1. A client has no bank debt. Therefore, my client might agree to restrict the report for management use only since it has no intention of obtaining bank debt. On the other hand, I might not be willing to take on the exposure of a client seeking a \$10,000,000 loan. I might point out, for example, that AICPA liability insurers will only afford Loscalzo & Company \$500,000 of coverage but larger firms can get much more.

2. A manufacturing client undergoing a first time audit may request a balance sheet only audit in order to establish opening inventory. Although SAS 62 or other procedures may accomplish the same thing, the balance sheet only audit may be more expeditious (not to mention alleviating concerns over piecemeal opinions). A full blown set of financial statements with an "except for" on the income statement or a balance sheet only with unlimited distribution could expose the auditor to guilt by association with the income statement. Here, members of the committee believed that if you did a balance sheet only audit, you by default gave an opinion on income. This is ridiculous. Just because ending retained earnings is correct doesn't mean income is correct (i.e., prior period errors, extraordinary vs. ordinary, etc.).
3. A client may truly want an audit for internal use only. However, it may be willing to eliminate certain GAAP accounting and certain notes. But it may not want these GAAP departure statements disseminated outside of the company.

I believe that the attest function is the one franchise a CPA has. In light of American Express and others trying to encroach on this franchise, we in this profession and the AICPA in particular should encourage the use of this franchise by encouraging the audit function. I am opposed to any standard that may cause a local practitioner not to perform an audit.

Very Truly Yours,



William Loscalzo



May 5, 1998

Ms. Judith Sherinsky
 Technical Manager, Audit and Attest Standards
 File 4275
 AICPA
 1211 Avenue of the Americas
 New York, NY 10036-8775

Re: Exposure Draft on Proposed Statement on Auditing Standards, "Restricting the Use of an Auditor's Report"

Dear Ms. Sherinsky:

The Texas Society of Certified Public Accountants (TSCPA) established the Professional Standards Committee (PSC) for the purpose of reviewing and commenting on proposed and existing professional standards in behalf of TSCPA's members. This communication is in accordance with that purpose. The Committee is pleased to submit its comments concerning the Exposure Draft (ED) entitled Restricting the Use of an Auditor's Report.

The Committee understands the need for an auditor to restrict the use of a report under the circumstances described in paragraph 4 of the proposed statement. However, we believe that communications regarding the restricted use report should be emphasized during the planning stage of the audit. The proposed Statement may be improved by recommending that the restrictions be included in the understanding with the client prior to the engagement. This recommendation may be followed by a larger number of auditors if it is made a part of this Statement.

The Committee has the following suggestions or comments regarding the proposed Statement:

1. We recommend the following as an addition to paragraph 17:

The communication to the client should specify the parties to which the report is restricted. Such communication should be included within the engagement letter and should include the elements specified in paragraph 18.

The restrictions on the use of the report should be a part of the contractual agreement between the auditor and the client. If the auditor does not have a contractual agreement to restrict the use of the report, then the client may be less aware of their responsibility to limit the distribution of the report.



The CPA. Never Underestimate The Value.SM

Ms. Judith Sherinsky
May 5, 1998
Page 2

2. Footnote 4, page 7, states, "Nothing in this Statement precludes an auditor from restricting the use of any report." We recommend this sentence be included in the body of the proposed Statement immediately following paragraph 4.
3. Paragraph 6 reads, "In addition, only the specified parties are in a position to understand how or whether the selected procedures meet their needs." We recommend that "or whether" be deleted because the specified parties have already agreed to the sufficiency of the agreed-upon procedures.

The views expressed in this response are those of a majority of committee members. Some members may hold different views on certain aspects of the ED. All members were encouraged to submit their individual responses to the AICPA.

The Professional Standards Committee of the Texas Society of Certified Public Accountants appreciates the opportunity to comment on the exposure draft. Please contact Kim Ousdahl at (713) 207-7434 or Steve Duncan at (713) 520-9100 if you have any questions.

Very truly yours,

Professional Standards Committee
Texas Society of Certified Public Accountants

By Steve Duncan
Steve Duncan, Vice Chair



Greater Washington Society of CPAs and GWSCPA Educational Foundation

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May 6, 1998

American Institute of
Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Attention: Ms. Judith M. Sherinsky

Re: File 4275

Gentlemen:

The Auditing Standards Committee of the Greater Washington Society of CPAs reviewed the proposed Statement on Auditing Standards, "Restricting the Use of an Auditor's Report." Because of the importance of this SAS to audits conducted in accordance with Government Auditing Standards, we obtained the concurrence of our Committee on Government Accounting and Auditing on the following two paragraphs. While we agree that there are some situations where the auditor should indicate who the report is intended for, we have the following concerns with certain parts of the proposed SAS:

The SAS does not contain clear guidance on general use verses restricted use reports. Rather footnote 4 states that whatever the auditor decides to restrict may be restricted. We believe that the SAS should be modified to prohibit auditors from restricting certain reports, including reports on audits of financial statements and reports on examinations under the attest standards. To permit restrictions on these documents could result in important information not being available to users. For the same reason, the SAS also should prohibit auditors from restricting reports that they know or have reason to believe will be used by or be available to persons other than the stated intended users.

An important example of this issue is reports issued when Government Auditing Standards are followed. Those standards require auditors to report their findings on internal controls and on compliance with laws and regulations. Often the report on the financial statements is combined with the

report on internal controls and on compliance. We believe that the reports on internal controls and on compliance with laws and regulations are basic reports (general use reports), not by-products of a government audit. Those reports are intended to be read by all citizens because those reports improve the accountability of government. The citizens are the real client. The auditor knows that by law these reports are available to and are intended to be read by the citizens. To say that the report is not intended for the citizens violates the intent of the law and of government auditing standards. Therefore, we recommend that the SAS state clearly that reports in accordance with Government Auditing Standards and those which are a matter of public record are general use reports and should not be restricted.

The SAS should be modified to recognize the role of the client in determining whether a report should have restricted use. In this regard, client means the stockholders or their representatives, not necessarily the person hiring the auditor. The SAS should require that auditors reach an understanding with the client on the purpose of the report and who the report is intended for. This should be done before the work begins. Auditors should not restrict the use of the report when they are informed that the distribution is intended to be wide or the client does not know the distribution. Rather, they should agree with the client on what needs to be done to meet client and prospective users' needs.

We also believe that the SAS should be retitled "Stating the Intended Use of an Auditor's report" and that the word "restrict" be changed as appropriate throughout the document. "Restrict" sends the wrong message. Just as auditors cannot control distribution of reports, they cannot restrict how reports will be used. Clients will control how they use an auditor's report, since they paid for the service. All auditors should do is state the intention of the report and any limitations on the auditor's work. Therefore, we are pleased that the example of report language does not use the word restrict.

If the proposed SAS is modified as discussed above, we would support its issuance.

Sincerely,



Abraham D. Akresh, CPA
Chair
Auditing Standards Committee
Greater Washington Society of CPAs



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CARL SPECHT
BERGEN COUNTY COMMUNITY
ACTION PROGRAM, INC.

RALPH ALBERT THOMAS
CITIBANK, N.A.

May 7, 1998

Ms. Judith M. Sherinsky
Technical Manager
Audit and Attest Standards - File 4275
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Sherinsky:

The Auditing and Accounting Standards Committee (the "Committee") of the New Jersey Society of Certified Public Accountants ("NJSCPA") is pleased to submit its comments in connection with the proposed Statement on Auditing Standards, "*Restricting the Use of an Auditor's Report*" (the "Proposed SAS"). The viewpoints expressed herein, represent the majority of a quorum of the members of the committee but are not necessarily those of the full membership of the NJSCPAs.

We have identified below certain issues for your consideration as a result of our review.

ISSUE ONE:

Clarification of Restrictions:

The Committee asks for clarification as to why there was a need to issue a new SAS rather than just amending the existing literature where necessary. The Committee also believes that an auditor should not be able to restrict an auditor's report on standard historical financial statements that is not a combined auditor's report. If the ABS agrees, there would be no need for Footnote 4 on page 7 of the document. However, should the footnote remain, it should be expanded to discuss the circumstances, other than those described in paragraph 4, that might justify restriction.



ISSUE TWO:

Definition of Terms:

The words "restricted-use" and "general-use" are shown both with and without the hyphen. It is suggested to better show these as terms and not just words that the hyphen be used throughout.

ISSUE THREE:

Adding Other Specified Parties:

Under the section entitled "What It Does", we suggest adding a reference to the procedures for including other specified parties in the engagement since the document devotes four paragraphs to those procedures.

ISSUE FOUR:

Report Language:

Paragraph 18b indicates the specified parties be identified. However, it does not indicate how specific that identification should be, such as the name of a bank or other institution if that party was outside of the client's management, board of directors, etc.. It is suggested that identification include those specific names of the parties involved.

ISSUE FIVE:

Report Referencing:

It is suggested that all statements, exhibits, etc. accompanying the restricted-use auditor's report be referenced back to that report.

We appreciate your consideration of our comments. We would be pleased to discuss our comments with the Board or their staff.

Very truly yours,



John A. Fazio, CPA, Chairperson
Auditing and Accounting Standards Committee



cc: Kenneth W. Moore, CPA - President
 Daniel J. Meehan, CPA - President-Elect
 William M. Collister, CPA - Trustee
 John A. Demetrius, CPA - Trustee
 Joseph F. Scutellaro, CPA - Trustee
 Meryll A. Bauer - Executive Director

EXPOSURE DRAFT -
PROPOSED STATEMENT ON AUDITING STANDARDS
RESTRICTING THE USE OF AN AUDITOR'S REPORT

MAY 6, 1998

Comments by: Louisiana Society of CPAs
Auditing and Accounting Standards Committee

- Al Roevens
- Jon Flair
- John Cameron
- James Tonglet
- Judson McCann, Jr.
- Joseph T. Green
- Mary Sanders

Response submitted by: Mary Sanders

The committee was in general agreement that the exposure draft offered good guidance and instruction in this area. However, the committee did have the following comments.

General Comments: One committee member would like to see a list of SOP's and Audit Guides affected by this standard be included in the draft to give the practitioner guidance on how many report examples will be modified by this standard (for example, paragraph 10.39n of SOP 98-3). Also, this member is skeptical of the distinction between the terms "use" and "distribution" contained in the summary, because, as a practical matter, the committee member feels that the auditor has less control over how his report is used than how it is distributed. Nevertheless, the committee member feels the discussion of "general use" and "restricted use" is highly relevant and informative.

General Comment: One committee member is concerned that any changes made to SAS No. 75 may introduce several cross-cutting issues in SSAE #4, Agreed-Upon Procedures Engagement.

Summary Section: One committee member commented that in the summary section, the exposure draft states that an auditor is required to restrict a "combined" report if it covers subject matter or presentations that ordinarily do not require such a restriction. The summary also states that the auditor is permitted to include a separate general-use report in a document that also contains a restricted-use report. The committee member felt that this statement seemed contradictory. It seemed that the requirement to restrict the use of a combined report can be circumvented by issuing two separate reports on the same document. Additionally, doing so may also confuse intended users of the document.

Paragraph 6, second sentence: One committee member thought the sentence should be expanded to read ...for use by other parties "who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes". This wording coincides with the current suggested reporting language.

Paragraph 15: One committee member thought that the exposure draft should be more specific or provide examples of what the written acknowledgment should contain. From the committee member's prospective, the auditors' report should adequately describe the nature of the procedures, departures from generally accepted accounting principles, the purpose of the report and any other information necessary to assist the reader. The committee member asks the question "What additional information could the auditor provide the other party?". The committee member also asks the question that by including this line in the exposure draft wouldn't we be expanding our exposure to obtain a separate acknowledgment for information that should be presented in the auditors' report. Another committee member thought that clearer definitions of "affirmative acknowledgment" and "written acknowledgment" were needed and that the mechanics and implementation of obtaining acknowledgment should be explained in the exposure draft.