

Statement on Auditing Standards Alert That Restricts the Use of the Auditor's Written Communication

Introduction

Scope of This Statement on Auditing Standards

1. This Statement on Auditing Standards (SAS) addresses the auditor's responsibility, when required or the auditor decides, to include in the auditor's report or other written communication issued by the auditor in connection with an engagement conducted in accordance with generally accepted auditing standards (GAAS) (hereinafter referred to in this SAS as auditor's written communication) language that restricts the use of the auditor's written communication. This language is referred to in this SAS as an alert. In an auditor's report, such language is included in an other matter paragraph. (Ref: par. A1 and A3)
2. Appendix A, "List of AU-C Sections in AICPA *Professional Standards* Relating to the Restricted Use of the Auditor's Written Communication," identifies AU-C sections in AICPA *Professional Standards* that contain specific requirements to include an alert that restricts the use of the auditor's written communication or that otherwise address the inclusion of such alerts. Accordingly, the requirements in this SAS regarding the form of such alert apply. (Ref: par. A2)

Effective Date

3. This SAS is effective for the auditor's written communications related to audits of financial statements for periods ending on or after December 15, 2012. For all other engagements conducted in accordance with GAAS, this SAS is effective for the auditor's written communications issued on or after December 15, 2012.

Objective

4. The objective of the auditor is to restrict the use of the auditor's written communication by including an alert when the potential exists for the auditor's written communication to be misunderstood if taken out of the context in which the auditor's written communication is intended to be used.

Definition

5. For purposes of GAAS, the following term has the meaning attributed as follows:

Specified parties. The intended users of the auditor's written communication.

Requirements

Alert That Restricts the Use of the Auditor's Written Communication

6. The auditor's written communication should include an alert, in a separate paragraph, that restricts its use when the subject matter of the auditor's written communication is based on (Ref: par. A2–A3)

- a. measurement or disclosure criteria that are determined by the auditor to be suitable only for a limited number of users who can be presumed to have an adequate understanding of the criteria,
- b. measurement or disclosure criteria that are available only to the specified parties, or
- c. matters identified by the auditor during the course of the audit engagement when the identification of such matters is not the primary objective of the audit engagement (commonly referred to as a by-product report). (Ref: par. A4–A7)

7. Unless specified otherwise by this SAS or other relevant AU-C sections in *AICPA Professional Standards*, the alert that restricts the

use of the auditor's written communication required by paragraph 6 should

- a. state that the auditor's written communication is intended solely for the information and use of the specified parties.
- b. identify the specified parties for whom use is intended. In situations covered by paragraph 6(c), the specified parties should only include management, those charged with governance, others within the entity, the parties to the contract or agreement, or the regulatory agencies to whose jurisdiction the entity is subject, as appropriate in the circumstances.
- c. state that the auditor's written communication is not intended to be and should not be used by anyone other than the specified parties. (Ref: par. A8–A9)

Adding Other Specified Parties (Ref: par. A10)

8. When, in accordance with paragraph 6, the auditor includes an alert that restricts the use of the auditor's written communication to certain specified parties, and the auditor is requested to add other parties as specified parties, the auditor should determine whether to agree to add the other parties as specified parties. In situations covered by paragraph 6(c), the auditor should not agree to add as specified parties any other parties not described in paragraph 7(b).

9. When the auditor agrees to add other parties as specified parties, the auditor should obtain affirmative acknowledgment, in writing, from the other parties of their understanding of

- a. the nature of the engagement resulting in the auditor's written communication,
- b. the measurement or disclosure criteria used in the auditor's written communication, and
- c. the auditor's written communication.

10. If the other parties are added after the release of the auditor's written communication, in addition to the requirements of paragraph 9, the auditor should take one of the following actions:

- a. Amend the auditor's written communication to add the other parties. In such circumstances, the auditor should

not change the original date of the auditor's written communication.

- b. Provide a written acknowledgment to management and the other parties that such parties have been added as specified parties. The auditor should state in the acknowledgment that no procedures were performed subsequent to the original date of the auditor's written communication or the date that the engagement was completed, as appropriate.

Alert for Engagements Performed in Accordance With Government Auditing Standards (Ref: par. A11)

II. The alert language required by paragraph 7 should not be used when

- a. the engagement is performed in accordance with *Government Auditing Standards*, and
- b. the auditor's written communication pursuant to that engagement is issued in accordance with
 - i. AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*);
 - ii. AU-C section 306, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements* (AICPA, *Professional Standards*); or
 - iii. AU-C section 935, *Compliance Audits* (AICPA, *Professional Standards*).

Instead, the alert required by paragraph 6 should

- a. describe the purpose of the auditor's written communication and
- b. state that the auditor's written communication is not suitable for any other purpose.

Application and Other Explanatory Material

Alert That Restricts the Use of the Auditor's Written Communication (Ref: par. 1–2 and 6)

A1. In addition to auditor's reports, auditor's written communications may include letters or presentation materials (for example, letters communicating internal control related matters or presentations addressing communications with those charged with governance).

A2. Certain AU-C sections in AICPA *Professional Standards*, identified in appendix A, contain specific requirements to include an alert that restricts the use of the auditor's written communication or that otherwise address the inclusion of such alerts. The need for an alert that restricts the use of the auditor's written communication arises from the potential for the auditor's written communication to be misunderstood if taken out of the context in which the auditor's written communication is intended to be used. The context in which the auditor's written communication is intended to be used may consist of a number of circumstances, including

- the purpose of the auditor's written communication;
- the nature of the procedures applied in its preparation;
- the basis of, or assumptions used in, its preparation; and
- the extent to which the procedures performed generally are known or understood.

A3. Auditor's reports on financial statements prepared in accordance with a general purpose framework ordinarily do not include an alert that restricts their use. However, nothing in GAAS precludes an auditor from including such an alert in any auditor's report or other auditor's written communication. For example, financial statements prepared specifically for use in connection with an acquisition may be prepared in accordance with a general purpose framework because the parties involved in the transaction have agreed that such general purpose financial statements are appropriate for their purposes. Nevertheless, when the terms of the engagement to audit those financial statements require the auditor to supply the auditor's report only to specified parties, the auditor may consider it necessary

in the circumstances to include an other-matter paragraph in the auditor's report that restricts the use of the auditor's report.¹

A4. The subject matter of the auditor's written communication may be based on matters identified by the auditor during the course of the audit engagement when identification of such matters is not the primary objective of the audit engagement (commonly referred to as a by-product report) (for example, communication about internal control or compliance related matters identified in an audit of financial statements, the primary objective of which is to express an opinion on the financial statements). Because such communication can only be understood in relation to the primary objective of the audit engagement, it may be misinterpreted or misunderstood. Accordingly, paragraph 6(c) requires such auditor's written communication to include an alert that restricts its use.

Alert That Restricts the Use of the Auditor's Written Communication Included in General Use Communications

A5. An auditor's written communication that is required by paragraph 6 to include an alert that restricts its use may be included in a document that also contains an auditor's written communication that is for general use. In such circumstances, the use of the general use communication is not affected.

A6. An auditor may also issue a single combined auditor's written communication that includes (a) communications that are required by paragraph 6 to include an alert that restricts their use and (b) communications that are for general use. If these two types of communications are clearly differentiated within the combined communication, such as through the use of appropriate headers, the alert that restricts the use of the auditor's written communication may be limited to the communications required by paragraph 6 to include such an alert. In such circumstances, the use of the general use communication is not affected. An example of a single combined auditor's written communication addressing a matter that was not the primary objective of the audit engagement that is included in a general use communication is provided in the exhibit "Illustrations of Reports on Compliance With Aspects of Contractual Agreements

¹ Paragraph .08 of AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* (AICPA, Professional Standards).

or Regulatory Requirements in Connection With Audited Financial Statements,” of AU-C section 806.²

Distribution of the Auditor's Written Communication

A7. An auditor is not responsible for controlling, and cannot control, distribution of the auditor's written communication after its release. The alert that restricts the use of the auditor's written communication is designed to avoid misunderstandings related to the use of the auditor's written communication, particularly if the auditor's written communication is taken out of the context in which the auditor's written communication is intended to be used. An auditor may consider informing the entity or other specified parties that the auditor's written communication is not intended for distribution to parties other than those specified in the auditor's written communication. The auditor may, in connection with establishing the terms of the engagement, reach an understanding with the entity that the intended use of the auditor's written communication will be restricted and may obtain the entity's agreement that the entity and specified parties will not distribute such auditor's written communication to parties other than those identified therein.

Illustrative Alert Language (Ref: ocr. 7)

A8. The alert that restricts the use of the auditor's written communication may list the specified parties or refer to the specified parties listed elsewhere in the auditor's written communication. The following illustrates language that includes the elements required by paragraph 7:

This [*report, letter, presentation, or communication*] is intended solely for the information and use of [*list or refer to the specified parties*] and is not intended to be and should not be used by anyone other than these specified parties.

A9. Other AU-C sections in AICPA *Professional Standards*, such as AU-C section 920, *Letters for Underwriters and Certain Other Requesting Parties* (AICPA, *Professional Standards*), may include

² New illustration 5, “Report on Compliance With Aspects of Contractual Agreements Given in a Combined Report, and No Instances of Noncompliance Were Identified,” in the exhibit “Illustrations of Reports on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements,” of AU-C section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements* (AICPA, *Professional Standards*).

specific requirements relating to the matters to be included in the alert that restrict the use of the auditor's written communication, as required by paragraph 6, including identifying the specified parties.

Adding Other Specified Parties (Ref: par. 8–10)

A10. When the auditor is requested to add other parties as specified parties, the auditor may agree to add the other parties as specified parties based on the auditor's consideration of factors such as the identity of the other parties and the intended use of the auditor's written communication.

Alert for Engagements Performed in Accordance With Government Auditing Standards (Ref: par. 11)

A11. *Government Auditing Standards* regard the auditor's written communications issued pursuant to the AU-C sections in *AICPA Professional Standards*, identified in paragraph 11, to be an integral part of the audit engagement for the purpose of assessing the results of the engagement. Accordingly, different alert language is used. The following illustrates language that includes the elements of the alert required by paragraph 11:

The purpose of this [report, letter, presentation, or communication] is solely to [describe the purpose of the auditor's written communication, such as to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance]. This [report, letter, presentation, or communication] is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering [describe the results that are being assessed, such as the entity's internal control over financial reporting and compliance]. Accordingly, this [report, letter, presentation, or communication] is not suitable for any other purpose.