

AICPA PROVIDES GUIDANCE ON RESTRICTED USE REPORTS

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Statement on Auditing Standards (SAS) No. 87, *Restricting the Use of an Auditor's Report*, provides guidance on restricting the use of certain reports written by CPA's who possess the professional qualifications that are required to practice as an independent auditor.

The effective date of SAS 87 is for reports issued after December 31, 1998. Generally, an auditor's report that is restricted will have a paragraph at the end of the report stating the following:

1. The report is intended solely for the information and use of the specified parties.
2. The specific parties to who use of the report is restricted.
3. The report is not intended to be and should not be used by anyone other than the specified parties.

An auditor issuing a restricted use report must keep in mind that although the wording states that the report is restricted, the auditor has no physical control over who actually sees the report, once the report is turned over to the specified users. The knowledge of a specified user's intention to distribute the report to others should not cause the auditor to withdraw from the engagement on which the auditor reports.

SAS 87 provides guidance on restricted use reports in three ways. It defines the term's *general use* and *restricted use*, and differentiates the two. It describes the circumstances in which the use of auditors' reports should be restricted, and it specifies the wording to be used in restricted use reports.

General use reports are typically those reports on financial statements prepared in conformity with generally accepted accounting principles (GAAP) or other comprehensive bases of accounting (OCBOA) other than GAAP. The term **restricted use** applies to reports that are intended to be read by specified parties, such as management of a corporation, or a board of directors. There are numerous reasons for restricting the use of an auditor's report, as stated by SAS 87, which include:

The intended purpose of the report

Executive Summary: SAS 87 provides guidance on restricting the use of certain reports by defining the term "restricted use," and explaining the circumstances under which it applies, and provides guidance on the language to be used in restricted use reports.

Restricted use reports are intended to be read by specified users of the report.

Guidance is also provided on combined general use and restricted use reports, and restricted use reports included in the same document as a general use report.

SAS 87 is effective for report issued after December 31, 1998. Prior use is permissible.

The procedures applied for which the report is prepared

The assumptions used in the report's preparation

The specified user's knowledge and understanding of the procedures performed

The potential for misunderstanding the report when removed from its intended context

SAS 87 also states the following circumstances in which an auditor should restrict a report's use:

- a. *The subject matter of the report, or the presentation being reported on, is based on measurement or disclosure criteria contained in contractual agreements or regulatory provisions that are not in conformity with GAAP, or an OCBOA.* These reports are restricted because the basis, assumptions, or purpose of these reports are developed for and directed to only the parties to the agreement, or the regulatory agency responsible for the provisions. In



AICPA Provides Guidance on Restricted Use Reports (cont'd):

certain cases, an auditor may agree to add other parties as specified parties to the report, based on the identity of the parties and the intended use of the report.

- b. *The auditor's report is based on procedures that are designed and performed specifically to satisfy the informational needs of specified parties. The specified parties accept responsibility for the sufficiency of the procedures.* These procedures are generally referred to as "agreed upon procedures".

In this type of engagement, the accountant performs certain specific procedures that have been agreed to by the specified parties, and the accountant reports the findings to the specified parties after performing those procedures. The types of agreed upon procedures to be performed will vary, depending upon the informational needs of the specified parties and the underlying circumstances of the engagement in general. For this reason, the responsibility for the sufficiency of the procedures lies with the specified parties, and the report on the application of the procedures is not appropriate for use by anyone other than the specified parties. In this type of engagement, the specified parties would be the only persons in a position to understand how the documented procedures met their informational needs.

- c. *The auditor's report is issued as a by-product of a financial statement audit and is based on the results of procedures designed to enable the auditor to express an opinion on the financial statements taken as a whole, not to provide assurance on the specific subject matter of the report.* These reports usually involve matters that came to the auditor's attention during the course of an audit of financial statements, relating to matters such as internal controls, communications with audit committees, and reports on compliance with contractual agreements or regulatory requirements related to audited financial statements. These should be restricted because, as by-product reports, the procedures directed toward the subject matter of the by-product report has been limited, as it is not the primary objective of the audit engagement. It is easy for the limited degree of assurance associated with by-product reports to be misunderstood. Therefore, their use should be restricted. By-product reports should be restricted to an entity's audit committee, board of directors, management, specified regulatory agencies, and parties to contractual agreements, where applicable, and other specified parties should not be added to this type of report.

If an auditor issues a report that combines both a general use and a restricted use report, this single combined report should be restricted to the specified parties (SAS 75 as amended). There may also be time where a restricted use report is included in the same document with a general use report. This does not change the intended use of either report. It may, however, change the distribution of the report.

Note: A modified version of this article was published in CAI's "Ledger Quarterly," Winter 1999 Issue

