

AU Section 532

Restricting the Use of an Auditor's Report

Source: SAS No. 87.

Effective for reports issued after December 31, 1998, unless otherwise indicated.

Introduction and Applicability

.01 This section provides guidance to auditors on restricting the use of reports issued pursuant to Statements on Auditing Standards (SASs).¹ This section—

- Defines the terms *general use* and *restricted use*.
- Describes the circumstances in which the use of auditors' reports should be restricted.
- Specifies the language to be used in auditors' reports that are restricted as to use.

The reporting guidance in paragraph .19 of this section is not applicable to reports issued under section 634, *Letters for Underwriters and Certain Other Requesting Parties*. [Revised, August 2011, to reflect conforming changes necessary due to the issuance of SSAE No. 16.]

General-Use and Restricted-Use Reports

.02 The term *general use* applies to auditors' reports that are not restricted to specified parties. Auditors' reports on financial statements prepared in conformity with generally accepted accounting principles or certain comprehensive bases of accounting other than generally accepted accounting principles² ordinarily are not restricted as to use.^{3, 4}

.03 The term *restricted use* applies to auditors' reports intended only for specified parties. The need for restriction on the use of a report may result from a number of circumstances, including the purpose of the report, the nature of the procedures applied in its preparation, the basis of or assumptions used in its preparation, the extent to which the procedures performed generally are known or understood, and the potential for the report to be misunderstood when taken out of the context in which it was intended to be used.

¹ Throughout this section, the term *accountant* may be used interchangeably with the term *auditor*. The term *accountant* refers to a person possessing the professional qualifications required to practice as an independent auditor. See section 110, *Responsibilities and Functions of the Independent Auditor*, paragraphs .04 and .05.

² Section 623, *Special Reports*, paragraph .04, defines a comprehensive basis of accounting other than generally accepted accounting principles.

³ However, see section 623.05*f* for restrictions on the use of reports on financial statements prepared in conformity with the requirements of the financial reporting provisions of a governmental regulatory agency.

⁴ Nothing in this section precludes an auditor from restricting the use of any report.

.04 An auditor should restrict the use of a report in the following circumstances.

- a. The subject matter of the auditor's 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 generally accepted accounting principles or an other comprehensive basis of accounting (OCBOA). (See paragraph .05.)
- b. 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. (See paragraphs .07 through 11.)

[Revised, October 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 93.]

Reporting on Subject Matter or Presentations Based on Measurement or Disclosure Criteria Contained in Contractual Agreements or Regulatory Provisions

.05 Reports on subject matter or presentations based on measurement or disclosure criteria contained in contractual agreements or regulatory provisions that are not in conformity with generally accepted accounting principles or an OCBOA are restricted as to use because the basis, assumptions, or purpose of such presentations (contained in such agreements or regulatory provisions) are developed for and directed only to the parties to the agreement or regulatory agency responsible for the provisions.

Reporting When Specified Parties Accept Responsibility for the Sufficiency of the Procedures Performed

[.06] [Paragraph deleted to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 93.]

Reporting as a By-Product of a Financial Statement Audit

.07 An auditor may issue certain reports on matters coming to his or her attention during the course of an audit of financial statements. Such reports include but are not limited to reports issued pursuant to the following:

- Section 325, *Communicating Internal Control Related Matters Identified in an Audit*
- Section 380, *The Auditor's Communication With Those Charged With Governance*
- Paragraphs .19 through .21 of section 623, *Special Reports*, for reporting on compliance with aspects of contractual agreements or regulatory requirements related to audited financial statements

[Revised, May 2006, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 112. Revised, April 2007, to reflect

conforming changes necessary due to the issuance of Statement on Auditing Standards No. 114.]

.08 Reports issued pursuant to the aforementioned auditing standards are based on the results of procedures designed to enable an 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 are by-products of an audit of financial statements and are referred to as by-product reports in this section.

.09 Because the issuance of the by-product report is not the primary objective of the engagement, an audit generally includes only limited procedures directed toward the subject matter of the by-product report. Accordingly, because of the potential for misinterpretation or misunderstanding of the limited degree of assurance associated with a by-product report, the use of such reports should be restricted. For example, a report issued under section 325 should be restricted because the purpose of the engagement is to report on an entity's financial statements, not to provide assurance on its internal control.

.10 An auditor may issue a by-product report in connection with other engagements conducted in accordance with generally accepted auditing standards, such as an engagement to express an opinion on one or more specified elements, accounts, or items of a financial statement.

.11 In consideration of the foregoing, the use of by-product reports should be restricted to management, those charged with governance, others within the organization, and any specified governmental authorities, when communicating internal control related matters identified in an audit (see section 325); those charged with governance and, if appropriate, management when communicating with those charged with governance (see section 380), and, in the case of reports on compliance with aspects of contractual agreements, to the parties to the contract or agreement (see section 623). [Revised, May 2006, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 112. Revised, April 2007, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 114.]

Combined Reports Covering Both Restricted-Use and General-Use Subject Matter or Presentations

.12 If an auditor issues a single combined report covering both (a) subject matter or presentations that require a restriction on use to specified parties and (b) subject matter or presentations that ordinarily do not require such a restriction, the use of such a single combined report should be restricted to the specified parties.

Inclusion of a Separate Restricted-Use Report in the Same Document With a General-Use Report

.13 In some instances, a separate restricted-use report may be included in a document that also contains a general-use report.⁵ The inclusion of a separate restricted-use report in a document that contains a general-use report does

⁵ Such a requirement exists in audits performed in accordance with U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and U.S. General Accounting Office, *Government Auditing Standards*.

not affect the intended use of either report. The restricted-use report remains restricted as to use, and the general-use report continues to be for general use.

Adding Other Specified Parties

.14 Subsequent to the completion of an engagement resulting in a restricted-use report, or in the course of such an engagement, an auditor may be asked to consider adding other parties as specified parties.

.15 As noted in paragraph .11 of this section, the use of by-product reports should be restricted to management, those charged with governance, others within the organization, and any specified governmental authorities, when communicating internal control related matters identified in an audit (see section 325); those charged with governance and, if appropriate, management when communicating with those charged with governance (see section 380), and, in the case of reports on compliance with aspects of contractual agreements, to the parties to the contract or agreement. An auditor should not agree to add other parties as specified parties of a by-product report. [Revised, May 2006, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 112. Revised, April 2007, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 114.]

.16 If an auditor is reporting on subject matter or a presentation based on measurement or disclosure criteria contained in contractual agreements or regulatory provisions, as described in paragraph .05 of this section, the auditor may agree to add 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 report. If the auditor agrees to add other parties as specified parties, the auditor should obtain affirmative acknowledgment, ordinarily in writing, from the other parties of their understanding of the nature of the engagement, the measurement or disclosure criteria used in the engagement, and the related report. If the other parties are added after the auditor has issued his or her report, the report may be reissued or the auditor may provide other written acknowledgment that the other parties have been added as specified parties. If the report is reissued, the report date should not be changed. If the auditor provides written acknowledgment that the other parties have been added as specified parties, such written acknowledgment ordinarily should state that no procedures have been performed subsequent to the date of the report.

[.17] [Paragraph deleted to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 93.]

Limiting the Distribution of Reports

.18 Because of the reasons presented in paragraph .03 of this section, an auditor should consider informing his or her client that restricted-use reports are not intended for distribution to nonspecified parties, regardless of whether they are included in a document containing a separate general-use report.^{6,7} However, an auditor is not responsible for controlling a client's distribution of restricted-use reports. Accordingly, a restricted-use report should alert readers

⁶ In some cases, restricted-use reports filed with regulatory agencies are required by law or regulation to be made available to the public as a matter of public record. 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 specified party.

⁷ This section does not preclude an auditor, in connection with establishing the terms of the engagement, from reaching an understanding with the client that the intended use of the report will be restricted, and from obtaining the client's agreement that the client and the specified parties will not distribute the report to parties other than those identified in the report.

to the restriction on the use of the report by indicating that the report is not intended to be and should not be used by anyone other than the specified parties.

Report Language—Restricted Use

.19 An auditor's report that is restricted as to use should contain a separate paragraph at the end of the report that includes the following elements:

- a. A statement indicating that the report is intended solely for the information and use of the specified parties
- b. An identification of the specified parties to whom use is restricted
- c. A statement that the report is not intended to be and should not be used by anyone other than the specified parties

An example of such a paragraph is the following:

This report is intended solely for the information and use of [*the specified parties*]⁸ and is not intended to be and should not be used by anyone other than these specified parties.

Effective Date

.20 This section is effective for reports issued after December 31, 1998. Early application of the provisions of this section is permitted.

⁸ The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report. For reports on engagements performed in accordance with U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the specified parties may be identified as "federal awarding agencies and pass-through entities."