

# ***Statement on Auditing Standards No. 125, Alert That Restricts the Use of the Auditor's Written Communication***

**Issue Date:** December 2011

**Effective Date:** 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.

**Product Number:** [ASASST125P](#) (Or, go to <http://www.cpa2biz.com> and search for this product number.)

## **Executive Summary**

As a result of its [Clarity Project](#), the Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 125, *Alert That Restricts the Use of the Auditor's Written Communication*, to

- supersede SAS No. 87, *Restricting the Use of an Auditor's Report* (AICPA, *Professional Standards*, AU sec. 532 and AU-C sec. 905), and
- amend the following SASs:
  - SAS No. 117, *Compliance Audits*, as amended (AICPA, *Professional Standards*, AU-C sec. 935)
  - SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*, AU-C sec. 725)
  - SAS No. 122 section 260, *The Auditor's Communication With Those Charged With Governance*, as amended (AICPA, *Professional Standards*, AU-C sec. 260)
  - SAS No. 122 section 265, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, AU-C sec. 265)
  - SAS No. 122 section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* AICPA, *Professional Standards*, AU-C sec. 800)
  - SAS No. 122 section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements* (AICPA, *Professional Standards*, AU-C sec. 806)
  - SAS No. 122 section 915, *Reports on Application of Requirements of an Applicable Financial Reporting Framework*, as amended (AICPA, *Professional Standards*, AU-C sec. 915)
  - SAS No. 122 section 920, *Letters for Underwriters and Certain Other Requesting Parties* (AICPA, *Professional Standards*, AU-C sec. 920)

SAS No. 125 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 GAAS language that restricts the use of the auditor's written communication. In an auditor's report, such language is included in an other-matter paragraph. The significant changes from existing standards as a result of the issuance of SAS No. 125 are:

- SAS No. 125 establishes an umbrella requirement to include an alert that restricts the use of the auditor's written communication when the subject matter of that communication is based on
  - 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,
  - measurement or disclosure criteria that are available only to the specified parties, or
  - 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).
- The alert language, which states that the communication is intended solely for the information and use of the specified parties, is consistent with AU section 532 and AU-C section 905, except when the engagement is also performed in accordance with *Government Auditing Standards*, and the written communication pursuant to that engagement is issued in accordance with AU-C section 265, AU-C section 806, or AU-C section 935. In this circumstance, the alert language describes the purpose of the communication and states that the communication is not suitable for any other purpose. No specified parties are identified in this type of alert.
- SAS No. 125 also modifies the guidance pertaining to single combined reports covering both (a) communications that are required to include an alert restricting its use and (b) communications that are for general use, which do not ordinarily include such an alert. AU section 532 and AU-C section 905 states that if an auditor issues a single combined report, the use of the single combined report should be restricted to the specified parties. SAS No. 125, however, indicates that the alert that restricts the use of the written communication pertains only to the communications required to include such an alert. Accordingly, the intended use of the communications that are for general use is not affected by this alert.
- AU section 532 and AU-C section 905 requires the auditor to consider informing his or her client that restricted use reports are not intended for distribution to nonspecified parties. SAS No. 125 does not include a comparable requirement and makes clear that an auditor is not responsible for controlling, and cannot control, distribution of the auditor's written communication after its release. The alert is designed to avoid misunderstandings related to the use of the written communication, particularly when taken out of the context in which it is intended to be used. An auditor may consider informing the entity or other specified parties that the written communication is not intended for distribution to parties other than those specified in the written communication.