

# What to Know About Third Party Verification Letters (Often Referred to as Comfort Letters)



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- For years, CPAs have been asked by third parties for verification, confirmation, certification, corroboration, authentication, or substantiation of their clients' financial information.
- Certain words should be carefully considered when drafting responses. Using words such as "assert", "attest", "certify", or "verify," when you have not performed the work required under attestation standards to make such assertions could mislead the requester. These words may lead requesters to think that your response is equivalent to providing an opinion or reasonable or limited assurance about your client's financial information.
- A good rule of thumb is to *state* the fact instead of *assert* the fact.
- If a mortgage broker or lender wants an attest report from you, you may
  - audit, review, or compile the personal financial statements of the borrower;
  - examine or compile pro forma or prospective financial information of the borrower; or
  - perform an agreed-upon procedures report, as long as the attest report does not provide any assurance on matters relating to solvency.
- Lenders are also concerned with legal issues on matters relating to solvency and the practitioner is generally unable to evaluate or provide assurance on these matters of legal interpretation.
- Brokers tend to ask for as much assurance as they can get without understanding or knowing the cost or consequences. However, once you explain to your client and the broker the cost entailed, they typically revisit their request. Brokers may be satisfied with an alternative option of a simple letter from

the CPA acknowledging that the income reported to the broker or lender is the amount that has been reported to the IRS on the tax return. You must obtain client consent in a format specified by the IRS before you send such a letter.

- Requests for copies of tax information pose unique challenges, as a CPA cannot provide tax return information, or copies of income tax returns, to a third party without a signed written consent from the client in a format specified by the IRS.
  - [Paragraph .27](#) of Interpretation No. 2, "Responding to Requests for Reports on Matters Relating to Solvency," of AT section 101 states that a practitioner is precluded from providing any form of assurance on matters relating to solvency or any financial presentation of matters relating to solvency. The matters relating to solvency are subject to legal interpretation under, and varying legal definition in, the Federal Bankruptcy Code and various state fraudulent conveyance and transfer statutes. Because these matters are not clearly defined in an accounting sense, and are therefore subject to varying interpretations, they do not provide the practitioner with suitable criteria required to evaluate the subject matter or an assertion under the third general attestation standard.
- CPAs are not precluded from providing lenders with responses based on factual information they have obtained (with signed written client consent), such as information in a client's articles of incorporation or an acknowledgment by the CPA of financial statement or tax return preparation. However, keep in mind that in order for the CPA to substantiate financial information to a third party, the CPA is required to perform additional procedures to verify the information is accurate. So, before declining to respond to the requester, which could strain your relationship with the client, offer to provide some other service that might satisfy the requestor's needs.

The following grid outlines common requests CPAs have been receiving, and provides related responses that may be appropriate, depending on whether or not the CPA has performed additional procedures to corroborate the information.

For further information on third party verification letters please visit the AICPA's resource center at [www.aicpa.org/verifications](http://www.aicpa.org/verifications).

<i>Requests from 3<sup>rd</sup> parties:</i>	<i>Phrases to avoid if no additional procedures have been performed:</i>	<i>Answer with factual information only (if additional procedures have not been performed):</i>	<i>Further explanation and additional procedures that may be performed by a CPA in order to provide verification:</i>
Request from a government agency for a CPA to submit a "current auditor's certificate of employee's current wage rate" for a client who is submitting invoices to a local governmental agency for work performed.	<p><b>"I certify the employee's current wage rate is \$XX"</b></p> <p><b>"I certify my client is complying with applicable government requirements."</b></p>	<p>"Based on the company's monthly payroll reports I obtained from the client (or client's payroll servicer), the following were the reported wage rates:</p> <ul style="list-style-type: none"> <li>* rate 1</li> <li>* rate 2</li> </ul> <p>Please note that this information was neither audited nor verified by me, and I make no representation nor do I provide any assurance regarding the accuracy of this information."</p> <p>Or</p> <p>"The standards of our profession provide that we</p>	Under existing AICPA standards, a CPA is never prohibited from providing factual information about a client provided they have the client's approval and they are not violating any confidentiality rules. The practitioner can also provide a client with additional professional services that may be useful in connection with other requests related to a financing. For example, a practitioner can offer to perform an agreed upon procedures engagement and test the wage rate by comparing the payroll report calculations

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		cannot provide attestation of our client’s employee’s current wage rate without performing additional procedures. However, I can provide you the employees’ wage rate as presented on the company’s monthly payroll reports which we believe will give you useful information as follows. This information was neither audited nor verified by me, and I make no representation nor do I provide any assurance regarding the accuracy of this information.”	with W-2 reports filed with the IRS.
Request from a lender to verify, certify or otherwise validate information presented on a tax return to a 3rd party (such as mortgage lender asking the CPA to certify self-employment income on a tax return)	“I verify that the tax information presented is correct.”	“At the request of my client, I have attached a copy of the tax return and related schedules provided to the IRS for filing for tax year XXXX. The attached tax return reports income from self-employment of \$XX,XXX. The return was prepared based on information provided by my client. This information was neither audited nor verified by me, and I make no representation nor do I provide any assurance regarding the accuracy of this information or the sufficiency of this tax return for your credit decision-making purposes.”	Due diligence standards under the AICPA Statements on Standards for Tax Services (SSTSs) and IRS Circular No. 230 generally allow CPAs to rely on information provided by the client when preparing tax returns. However, these standards are NOT sufficient if the CPA is being asked by a lender or broker to validate the information furnished by the taxpayer. As a result, in order for the CPA to substantiate to a third party the financial information furnished by taxpayers in a tax return, the CPA is required to perform additional procedures to verify the information is accurate. Under existing AICPA standards, the practitioner may provide a client with various professional services that may be useful to the client in connection with a financing, such as compilations, reviews or audits.
Request for verification that upon liquidation the fair salable value of assets exceeds liabilities.	“In my professional judgment the fair salable	Though this appears to be a request for solvency assurance, ascertain from the requester whether the CPA can perform another service to satisfy the request, such as a business valuation service, or a	

<i>Requests from 3<sup>rd</sup> parties:</i>	<i>Phrases to avoid if no additional procedures have been performed:</i>	<i>Answer with factual information only (if additional procedures have not been performed):</i>	<i>Further explanation and additional procedures that may be performed by a CPA in order to provide verification:</i>
	<b>value of assets exceeds liabilities.”</b>	<p>compilation, review or audit of the fair value balance sheet (to determine if the assets exceed their liabilities).</p> <p>However, if the requester will not accept either solution as an alternative, the response is as follows:</p> <p>“I am precluded from giving any form of assurance on matters relating to solvency or any financial presentation of matters relating to solvency. It is a violation of AICPA attestation standards and therefore an ethical violation.”</p>	
Request for a signed letter from the CPA addressing the issue of client withdrawing money from the business and its effect on the business going forward	<b>“I am providing assurance that my client’s commitments will not have an impact on business operations.”</b>	<p>Though this appears to be a request for solvency assurance, ascertain from the requester whether the CPA can perform another service such as an examination or compilation of a forecast showing the expected effect the withdrawal will have on the business given certain assumptions.</p> <p>If after speaking with the lender the lender really wants a verification related to solvency, the response is as follows:</p> <p>“I am precluded from giving any form of assurance on matters relating to solvency or any financial presentation of matters relating to solvency. It is a violation of AICPA attestation standards and therefore an ethical violation.”</p>	While the CPA is precluded from providing any assurance on matters related to solvency, CPAs can substantiate financial information to third parties by performing procedures that can range from reporting the ending cash balance on the client’s bank statement to performing procedures to attest to the cash on hand at a certain date. The CPA can also report on a forecast showing the effect of a withdrawal given certain assumptions. However, the requestor is responsible for reaching its own conclusions on whether that cash will be sufficient going forward.
Request verification of self-employment or independent contractor status	<b>“I verify my client is self-employed”</b>  <b>“I verify my client is an</b>	“I prepared a tax return for filing with IRS reporting self-employment income on federal Form 1040 based on information provided by my client. At my client’s request, I have attached a copy of the tax return and related schedules I provided for filing with IRS. This information was neither audited nor verified by me,	The reporting of self-employment income on a tax return is not sufficient to verify self-employment or independent contractor status. Though an alternative might be to provide copies of tax returns reporting self-employment income, this

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	<b>independent contractor”</b>	and I make no representation nor do I provide any assurance regarding the accuracy of this information.”	verifies only that income has been reported that is subject to the self-employment tax and does not validate or otherwise verify the nature of the work performed in terms of the taxpayer’s actual employment status. However, before a CPA can provide copies of tax returns or other tax return information to a third party, the client must provide a signed written consent in a format specified by the IRS in Rev. Proc. 2013-14 <sup>1</sup> .
<p>Request that the CPA provide one of the following in connection with the client obtaining a business or personal loan (for example, mortgage or refinancing):</p> <ul style="list-style-type: none"> <li>• Signed cash flow analysis</li> <li>• Year to date P&amp;L signed and dated</li> <li>• Financial forecast</li> </ul>	<b>“I am providing assurance that my client’s commitments will not have an impact on business operations.”</b>	CPAs can substantiate financial information to third parties by performing procedures that can range from a rigorous audit (or examination) that results in a report about whether the CPA believes the information to be free of material misstatement to those less rigorous engagements, resulting in lower levels or no level of assurance. Such services may include a compilation, review or agreed upon procedure engagements.	We observe in practice that lenders often accept a compilation on historical financial information.
Request for signed certification from CPA to attest a professional opinion based on review of XX Company records that XX Company is complying with applicable governmental requirements and meets the terms in the subcontractor/supplier agreement.	<b>“I attest that my client is complying with applicable government requirements and meets the terms in the subcontractor agreement”</b>	If an audit was previously done, you can provide a derivative report under AU-C section 806, Reporting on Compliance of the Entity with Applicable Governmental Requirements that Meet the Terms of the Subcontractor/Supplier Agreement.	<p>If an audit was not done, additional services performed by CPAs in order to certify information may include the following:</p> <ul style="list-style-type: none"> <li>• An agreed upon procedures engagement, testing the government requirements and terms in the subcontractor/supplier agreement.</li> <li>• A compliance examination</li> </ul>

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Request for letter from the CPA to certify to the lender how long the borrower has been self-employed.	<p><b>“I attest the borrower has been self-employed for X years running a viable business.”</b></p>	<p>“I have been engaged by the client since XXXX and have prepared tax returns for filing with IRS reporting self-employment income on federal Form 1040 based on information provided by my client for tax years XXXX, XXXX, and XXXX. The returns were prepared based on information provided by my client. This information was neither audited nor verified by me, and I make no representation nor do I provide any assurance regarding the accuracy of this information or the sufficiency of this tax return information for your credit decision-making purposes.”</p>	<p>The reporting of self-employment income on a prior year return is not sufficient to verify current self-employment or independent contractor status. Though an alternative to verifying current status might be to provide copies of the tax return reporting self-employment income, this verifies only that income has been reported that is subject to the self-employment tax and does not validate or otherwise verify the nature of the work performed in terms of the taxpayer’s actual employment status. However, before a CPA can provide copies of tax returns or other tax return information to a third party, the client must provide a signed written consent in a format specified by the IRS in Rev. Proc. 2013-14<sup>1</sup>.</p>
Request a statement from the CPA that the client is not insolvent at the time the debt is incurred or would not be rendered insolvent thereby.	<p><b>“The client is will be able to repay the loan.”</b></p> <p><b>“I am providing assurance that my client’s commitments will not have an impact on business operations.”</b></p>	<p>“I can provide you with various services to help you determine whether the client’s assets exceed their liabilities after the debt has been incurred. However, I cannot opine on whether the client is insolvent or would be rendered insolvent as a result of entering into this debt. That could be construed as a solvency opinion. I am precluded from giving any form of assurance on matters relating to solvency or any financial presentation of matters relating to solvency. It is a violation of AICPA attestation standards and therefore an ethical violation.”</p>	<p>“Insolvent” is a legal concept and therefore a CPA would need to better understand the meaning of this request before deciding how to answer it. Before responding with the following solvency response, try to understand why the requester is making such a request. What the requester might have meant is whether the client’s assets will exceed liabilities after the debt is incurred. A CPA can provide services relative to a, review or audit of the fair value balance sheet (to determine if the assets exceed their liabilities).</p>

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Request a letter from the CPA confirming that the client has the ability to pay debts as they mature	<p><b>“I certify that my client will be able to repay the loan”</b></p> <p><b>“I am providing assurance that my client’s commitments will not have an impact on business operations.”</b></p>	<p>“I can provide you a report on a financial forecast or financial projection if so engaged. That information may give you the support you need to arrive at your own conclusions regarding the entity’s ability to pay its debts. However, I cannot assert whether my client has the ability to pay debts as they mature. That could be construed as a solvency assertion. I am precluded from giving any form of assurance on matters relating to solvency or any financial presentation of matters relating to solvency. It is a violation of AICPA attestation standards and therefore an ethical violation.”</p>	<p>Though this appears to be a request for solvency assurance, ascertain from the requester whether the CPA can report on a projection or forecast to satisfy this request instead. This alternative service, which is allowable, may satisfy the requester’s inquiry.</p>
Requests a letter from the CPA confirming that the client does not have unreasonably small capital for the purposes of a specific transaction	<p><b>“I assert that my client has adequate capital.”</b></p>	<p>“I can perform attestation engagements relative to elements of the financial statements such as the capital account (e.g. the capital account is fairly presented or provide projections on cash flows given certain scenarios). However, I cannot assert that the client’s capital is, or is not, sufficient for this transaction. Doing so may be construed as providing a solvency assertion. I am precluded from giving any form of assurance on matters relating to solvency or any financial presentation of matters relating to solvency. It is a violation of AICPA attestation standards and therefore an ethical violation.”</p>	<p>While this appears to be a request for solvency assurance, ascertain from the requestor whether the CPA can provide some form of assurance engagement relative to the overall capital account or whether it is asking for an opinion on solvency to satisfy this request. The suggested alternative services, which are allowable, may satisfy the requestor’s inquiry.</p>
Request for a signed letter from CPA explaining that use	<p><b>“I assert that this</b></p>	<p>“I can provide you with a compilation or examination</p>	<p>Though this appears to be a request for solvency assurance, ascertain from the</p>

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of \$50k cash from the s-corporation's bank account does not impact the viability of the company	<b>transaction will not impact the viability of the company."</b>	report on a forecast showing how the use of the \$50K is expected to impact cash flow given the company's assumptions. However, I cannot provide you with assurance that the use \$50K will not impact the viability of the company. Doing so may be construed as providing a solvency assertion. I am precluded from giving any form of assurance on matters relating to solvency or any financial presentation of matters relating to solvency. It is a violation of AICPA attestation standards and therefore an ethical violation."	requester whether the CPA can provide an examination or compilation of a forecast showing the expected use of the \$50K and the expected impact that the transaction will have on the business given certain assumptions, or whether it is asking for an opinion on solvency to satisfy this request. This alternative service, which is allowable, may satisfy the requester's inquiry.
Requests additional information from the CPA that was not part of the original request.		"I am precluded from giving this additional information without first obtaining the signed written consent from the client."	Be careful to respond only to a request for release of information that the client has authorized. A CPA cannot provide any confidential client information without signed, written consent from the client.

<sup>i</sup> Internal Revenue Code [Section 7216](#) and [Treas. Reg. Section 301.7216-3](#) actually makes it a crime for a tax preparer to disclose client tax return information to a third party without signed written consent from the client in a format specified by the IRS in [Rev. Proc. 2013-14](#). More information and details regarding the specific wording and format can be found on the [Section 7216 Information Center](#) on the IRS website.

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