

## Third-Party Verification Letters: Questions and Answers



Increasingly, CPAs are receiving requests from clients, lenders, mortgage brokers, health and life insurance providers, adoption agencies, regulators, and various other government and nongovernment agencies to confirm client information. In turn, the AICPA has received several inquiries from CPAs on what they often refer to as “comfort letters.” However, AU-C section 920, *Letters for Underwriters and Certain Other Requesting Parties* (AICPA, *Professional Standards*), defines a *comfort letter* as a letter issued by an auditor in accordance with AU-C section 920 to requesting parties in connection with an entity’s financial statements included in a securities offering. The requests that CPAs are actually receiving from third parties pertain to *verification letters*. The requested information may relate to a pending loan, employee medical insurance, child adoption applications, or use-tax certification. Mortgages originated by private mortgage companies, which were resold to Fannie Mae and Freddie Mac and past due, are subject to required quality reviews. Quality review standards may require the mortgage originator to contact CPAs whose third-party verification is contained within the loan file to confirm the statements made in such letters. In most cases, CPAs are asked to provide a confirmation letter containing specific language, a verification statement, or a certification form. Due to the increase in requests, CPAs find that this process is becoming more and more confusing, and information regarding third-party verification is increasingly important to assure that practitioners are providing optimal services. In response to frequently asked questions regarding third-party verification letters, the following are responses to those questions most commonly asked.

### .01 What is the basic concern surrounding a CPA providing a third-party verification letter or certification?

CPAs have often been asked to provide third-party verification letters. When a lender or other requesting organization requests factual information, a CPA may provide it, as long as the CPA is not breaking client confidentiality. However, when a lender wants the CPA to provide any *assurance on matters relating to solvency*, the CPA is prohibited from doing so. It is a violation of AICPA attestation standards and, therefore, an ethical violation. Certification of tax information presents additional challenges. See questions .02 and .07–.10, which address many of the tax issues involved.

### .02 Can a member provide client tax information in response to a request for information or verification from a third party?

[Rule 301, Confidential Client Information](#), (AICPA, *Professional Standards*, ET sec. 301 par. .01), prohibits a member from disclosing confidential client information without the specific consent of the client. Internal Revenue Code (IRC) [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 at the IRC [Section 7216 Information Center](#) on the IRS website. As a result, the short answer is “no”—a member cannot provide client tax information to a third party absent express written authorization from the client in a specified format.

For many clients, contacting the CPA is a matter of convenience. They contact their CPA to avoid having to reorganize, consolidate, or filter through their own records. As an alternative to the strict procedures required by IRC Section 7216, many practitioners send

the specific information being requested directly to the client in a convenient, readily accessible format (for example, a copy of the federal return as a separate PDF document). This allows clients to quickly and conveniently provide the requested information to the third party on their own.

**.03 I've been asked to supply verification of my client's solvency. Where can I provide the reasons for why these letters are prohibited and what types of services are permissible?**

Interpretation No. 2, "Responding to Requests for Reports on Matters Relating to Solvency," of AT section 101, *Attest Engagements* (AICPA, *Professional Standards*, AT sec. 9101 par. .23–.33), describes why a CPA is prohibited from providing any assurance on matters related to solvency. [TIS section 9110.19](#), "Lender Comfort Letters" (AICPA, *Technical Practice Aids*), also provides nonauthoritative guidance.

**.04 Isn't the decision to supply a verification letter a matter of my own understanding of the transaction and an evaluation of the risk of providing the letter?**

There is no "standards" issue with providing factual information, as long as the CPA doesn't violate client confidentiality. If any person or group asks for *assurance on matters related to solvency*, the CPA cannot provide it. It is a violation of AICPA attestation standards and, therefore, an ethical violation. Providing assurance on solvency is not a decision about risk—it's an ethics violation. As mentioned in a previous question and answer, there are ways to act as the client's trusted adviser without providing comfort for solvency while still managing the risk of being sued and following professional standards.

**.05 Can the AICPA address the problem of solvency requests with the lenders, such as national and community lenders and mortgage brokers who require them? Can the AICPA persuade lenders, government agencies, and others to prohibit this request?**

The AICPA is working with banking trade associations and other regulatory agencies on behalf of CPAs to explain the sensitive issues surrounding solvency opinion letters and what kinds of verification CPAs can provide outside of matters relating to solvency. Although we can attempt to address the issue with those entities at their national or state level, often, it is at the branch level or some independent third party (broker) that is making the request. Most major banks have no such requirement, and the government-sponsored entities (such as Freddie Mac and Fannie Mae) have already rescinded such requests from their servicing guides; yet, this practice still remains. The [AICPA Accounting and Auditing Technical Hotline](#)<sup>1</sup> provides members with free, high-quality technical assistance. The hotline is available from 9 a.m. to 8 p.m. ET at 877.242.7212. Additionally, questions may be submitted online by filling out the [hotline form](#).

**.06 A bank has sent a form that requires me, as the accountant, to fill in certain information, such as verification of income. What can I do?**

A broker or lender may be satisfied with a copy of the client's income tax return. However, as explained in preceding question .02, Ethics [Rule 301](#) of the AICPA [Code of Professional Conduct](#) prohibits a member from disclosing confidential client information without the specific consent of the client. Question .07 addresses the tax implications of using tax

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information for bank verifications. If appropriate consents are obtained from the client, question .10 addresses the question of sample language practitioners might use if they choose to provide a letter, along with the copy of tax return.

**.07 My client received a request from a mortgage lender to verify income. What rules or regulations prohibit me from verifying tax return income information in response to a third-party request? What would I need to do or obtain from the client?**

Tax return preparation standards for due diligence under [Circular 230](#) Section 10.34(d) (Relying on information furnished by clients) and TS section 300, *Certain Procedural Aspects of Preparing Returns* (AICPA, *Professional Standards*), allow a CPA to rely on information furnished by the taxpayer. These due diligence standards, however, are not sufficient when being asked to verify, certify, or otherwise validate information presented on a tax return to a third party.

A verification request from a mortgage lender presents a somewhat unique problem. On the one hand, a member is subject to the same confidentiality and disclosure rules as stated previously in question .01. In addition to that, however, is the question of what constitutes “verification.” Assuming that the member received appropriate consent from the client to provide the information to a third party, the member would have to take care not to exceed the actual scope of the verification. Language such as “I verify that I prepared a tax return reporting \$XX,XXX amount of income based on information provided by the client” might be appropriate. However, any certification beyond confirmation of the income reported on the return as prepared cannot be done under the due diligence standards of the profession. Anything beyond that should be done under the terms of a separate attestation engagement or other agreed-upon procedures engagement.

**.08 Does the AICPA have a standard letter in response to third-party verification letters that I can use for a tax-only client?**

The AICPA does not have a specific tax-only third-party verification sample letter. However, the sample letter provided in TIS section 9110.19 on lender comfort letters (full text follows) is a good starting point but should be modified based on your client’s situation.

*Date*

*ABC Company*

*Address*

*City, State Zip*

*Dear Mr. \_\_\_\_\_:*

*I am writing to you at the request of Mr. & Mrs. \_\_\_\_\_.*

*The purpose of this letter is to confirm to you that I prepared the 20XX federal income tax return of Mr. & Mrs. \_\_\_\_\_ and delivered this return to them for filing with the IRS. At their request, I have attached a copy of the tax return and related schedules provided to them for filing.*

*This return was prepared from information furnished to me by Mr. & Mrs. \_\_\_\_\_. 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.*

*I prepared Mr. & Mrs. \_\_\_\_\_ tax return in accordance with the applicable IRS rules and regulations solely for filing with the IRS. As a result, the tax return does not represent any assessment on my part regarding creditworthiness and does not include any statement of their financial position or income and expense for the year 20XX, in accordance with accounting principles generally accepted in the United States of America, and should not be construed to do so.*

*As you know, a credit decision should be based on a lender’s exercise of due diligence in obtaining and considering multiple factors and information. Any use by you of Mr. & Mrs. \_\_\_\_\_ 20XX federal income tax return and this letter is solely a matter of your responsibility and judgment. This letter is not intended to establish a client relationship with you nor is it intended to establish any obligation on my part to provide any future information to you with regard to Mr. & Mrs.*

\_\_\_\_\_.

*Sincerely,*

\_\_\_\_\_ (Firm Name)

cc: Mr. & Mrs. \_\_\_\_\_ (Client)

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