

Porterfield Killingsworth CPA, PLLC
Summary of Auditor's Association with Municipal Debt Offering

Background

- Municipal Debt issuances are exempt from SEC requirements.
- Underwriting process is similar to SEC issuances.
 - Official Statement similar to a Prospectus is generally prepared in two stages, a preliminary statement followed by the final statement.

Auditor Association with Debt Issuances

The following activities are considered to associate the auditor with the issuance:

- a. Reviewing a draft of the document at the client's request.
- b. Assisting in the preparation of financial information needed for the document.
- c. Manually or electronically signing the auditor's report included in the document.
- d. Providing a revised independent auditor's report in the document.
- e. Issuing a report on an attestation engagement related to the debt offering.
- f. Issuing a comfort letter as described in SAS No. 72 *Letters for Underwriter and Certain Other Requesting Parties* or issuing an attestation engagement report instead of a comfort letter on information in the document.
- g. Proving written agreement for the use of the auditor's report in the document.

Once associated with the official statement, the auditor must follow the requirements of SAS No. 8, *Other Information in Documents Containing Audited Financial Statements*.

Responsibilities of Association

SAS No. 8 requires the auditor to read the other information included in the official statement and consider whether the information or its presentation is materially inconsistent with related information and its presentation in the audited financial statements.

Reference to the Independent Auditor

The issuer is allowed to make reference to the auditor's role in an official statement. However, the auditor cannot be referred to as an "expert" anywhere in the document, as is done in SEC offering documents. The title of the section of the official statement referring to the auditor should be titled "Independent Auditors" as follows:

INDEPENDENT AUDITORS

The financial statements as of June 30, 20X1, and for the year then ended, included in this Official Statement, have been audited by Firm Name, independent auditors, as stated in their report appearing herein.

Appropriate Reports to Present When There Is Auditor Association

Auditor reports that are restricted-use reports should not be presented in an official statement issued by the government. Those restricted-use reports include required Yellow Book reports.

In addition, to avoid confusion the authors recommend that any audit report included in an official statement not refer to *Government Auditing Standards*, a Yellow Book audit, or Yellow Book reports.

Issuing Reports or Letters in Connection with the Official Statement

If the auditor will be issuing reports or letters as described in items above, the auditor will need to perform subsequent events procedures and obtain a management representation letter, in addition to reviewing the official statement.

The subsequent events review should extend from the previous audit report date to within five days of the date of the official statement. If the auditor's report is being manually signed to include in the official statement or if a consent letter is being issued, management representations from the prior audit should be extended to the date of the official statement.

Comfort Letters

Some underwriting agreements between the issuer and the underwriter require the auditor to provide comfort to the underwriter on the dollar amounts included in the official statement. SAS No. 72, *Letters for Underwriters and Certain Other Requesting Parties*, provides guidance to auditors issuing comfort letters to underwriters concerning official statements.

In order to issue a comfort letter, the underwriter is required to provide a signed representation letter addressed to the auditor containing specific language related to the Securities Act of 1933. This is in addition to the normal management representations obtained when issuing a report.

SAS No. 72 generally requires that a review be performed on interim financial statements to provide negative assurance. However, if a review is not performed, the auditor can still issue a comfort letter stating procedures performed and the resulting findings. An underwriter that is unwilling to make the representations required by SAS No. 72 can be issued an agreed-upon procedures report.