

Student

Semester Project

Introduction

I plan to go into the finance field, more specifically accounting. Therefore I will be providing and analyzing a C.P.A. comfort letter. Basically the purpose of this letter is to confirm that the accountant's client's financial information is valid and consistent with what the bank or Mortgage Company has received. More recently these types of letters are being regarded as detrimental to the relationship between the client and accountant. Companies look to accountants to provide solvency information which is strictly prohibited by professional and ethical standards. Solvency is an individual or company's ability to cover their liabilities based on what assets they have. These letters are being requested at a higher frequency as the market is fluctuating and more people are trying to refinance and/or get into a home.

Writers/Readers

The writer of the comfort letter is the accountant. The writer's job is to provide as much information as they possibly can without violating client privilege. The writer also needs to be overly explicit in their wording so as not to sway the recipient of the letter in any way whatsoever.

The reader is going to be the company that requested the comfort letter in the first place. Whether it is a mortgage company or a bank requesting this information, the purpose of the letter is to verify the income of the person applying for the loan. As I said above, there is a limited amount of information an accountant is allowed to share with any requester, or reader.

Context

The context in which a comfort letter would need to be written would be when a financial institution or lender needs to verify that the person or business that is applying for the loan is financially sound, and that the information that the applier has provided directly to the financial institution are accurate. These requests could be made at any time of the year. As for where they are made, I would say that these requests are most commonly made by banks. Most people may not have accountants, but businesses do. These businesses, if they want to expand, will most likely need a loan. The bank will then contact the accountant and request this information. During my research I came across certain questions pertaining to self employment and this leads me to believe that more comfort letters are requested for business income information.

Purpose

The purpose of a comfort letter is for the writer to ease the reader's mind. Although the reader may request more information than the writer is allowed to provide, the letter needs to be carefully worded to protect the writer from legal ramifications. Anything less than a cautious approach, can result in violation of professional standards and exposure to a third-party lawsuit.

Rhetorical Conventions

The rhetorical conventions in my genre are a little complicated. There is some information that a CPA may share with a third party and a lot more they cannot. While every situation is different, this particular situation is a request for income tax information. Other situations may include requests for self-employment status, income/business ownership, business profitability or real-estate purchase impact on business. The conventions of the letter in my particular situation are very redundant. It is almost to the point of overkill, stating over and over that the information I have been requested to confirm, or deny, does not represent any assessment on my part whatsoever and my letter should not in any way shape or form be the deciding factor in the outcome of the inquiry.

Work Cited

When I began to do research on these comfort letters, I began to think I wouldn't find much. I didn't find as much as I wanted but I did find enough to begin to understand what these letters entail, how they are supposed to be written and what to watch out for when writing these letters.

On the first website listed below, I found power point presentations on comfort letters, tips on how to write them and brochures for people titled "Know what your C.P.A. can share about you. This was not only informative for the accountant but also for someone who may not be sure about what information of theirs can be shared. There were also some sample letters and how to deal with third party verification requests.

The second website I used was where I found my comfort letter sample. It was a PDF file and was worded perfectly for this assignment. It had clear and explicit conventions while answering, hopefully, everything the reader requested of them.

Lastly, on the third website I found the most useful information, including a five minute video that breaks down what you can and cannot share, as well as what a third party can legally request from you in these comfort letters. Trust but verify, this site says this a few times which leads me to believe that these letters are obviously a growing problem and are being used less frequently as of late.

"Comfort Letters." *PICPA* -. N.p., n.d. Web. 28 Apr. 2014.

"Comfort Letter Examples for Individuals & Businesses." *Bright Hub*. N.p., n.d. Web. 28 Apr. 2014.

"Trust But Verify – Another Perspective on Comfort Letters - AICPA Insights."
AICPA Insights. N.p., n.d. Web. 28 Apr. 2014.

Letter

March 23, 2014

Student and Co.

1234 So 500 E

Dear Mr. Jones,

I am writing you at the request of my clients Mr. and Mrs. Templeton.

The purpose of this letter is to confirm that I have prepared the 2013 Federal Income Tax return for Mr. and Mrs. Templeton and delivered this return to them for filing with the Internal Revenue Service (IRS). At their request, I have also included 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. and Mrs. Templeton. 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. and Mrs. Templeton's tax return in accordance with the applicable IRS rules and regulations solely for filing with the IRS. As a result the return does not represent any assessment on my part as to creditworthiness and does not include any statement of their financial position or income and expense for the year 2013 in accordance with generally accepted accounting principles 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. and Mrs. Templeton's 2013 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. and Mrs. Templeton.

Sincerely,

Student

CEO Student and Co.

Part IV

The writer of the comfort letter should be reluctant to write this letter in the first place. As I mentioned in the introduction, these types of letters, if even written at all, should be worded very carefully. The accountant should be wary of the information he or she shares with the reader, which is the lender or creditor. In the letter the writer uses phrases like “information the client has provided”. This is important because the accountant can only provide what he has been provided with. Unless the accountant conducts a full audit of the client whose information is requested, the information the accountant has is limited to what he has been given. So in other words the writer cannot give the reader something he does not have. The reader has limits also. They cannot request solvency information, which I explained before deals with the client’s ability to repay debts based on assets.

The purpose of the comfort letter is to make the reader more comfortable, imagine that. For all intents and purposes it is basically the writer (accountant), vouching for the client, at the reader’s (institution) request for information verification. The idea of the whole thing seems pointless to me. If the client has provided the same information to both the reader and the writer in this situation, then the comfort letter is nothing but a formality. In any case they are still being used but in decreasing numbers. The comfort letter is being frowned upon more and more by accountants as it puts them in very precarious situations and risks their relationships and possibly their licenses.

The rhetorical conventions of this genre are a little complicated as I said earlier. In this particular situation, the request from the reader is that of income tax information. I was very careful not to reveal or to sway the reader in any way shape or form. It looks easier than it is. It is very difficult to share this information in a professional way without seeming like you are taking a position on the client’s finances. It is very important that you keep a neutral position. I did this by using specific phrases that could only be construed one way. I started the letter by telling the reader the purpose of the letter, surely they know but this way there is no confusion. I also made it clear that the information I am forwarding is in fact information furnished to me by my clients, and that there was not an audit conducted to further verify said financial information. I further simplify my position by telling the reader in the letter that I make no assurances that this information is accurate, nor do I verify the sufficiency of this information for the reader’s credit decision making purposes.