

15 November 2011

The Chairman
Auditing and Assurance Standards Board
PO Box 204
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Dear Ms Kelsall

Exposure Draft ED 03/11 Proposed Standard on Related Services ASRS 4450 *Comfort Letter Engagements* ("Proposed Standard")

Ernst & Young Australia welcomes the opportunity to offer its views on the Proposed Standard.

We support, as a whole, the Proposed Standard on comfort letters which we believe responds to the needs of the Australian auditors when requested by their clients to provide a comfort letter to certain requesting parties in relation to the client's offering document. Specifically, we agree with the view expressed in the Proposed Standard that there is "no assurance" provided in the comfort letter.

We observe that the comfort expressed on the subsequent change period is referred to as an "auditor's statement" in the Proposed Standard. This differs from the approach taken in one of the most commonly referenced standards, being Statement on Auditing Standards SAS 72 *Letters for Underwriters and Certain Other Requesting Parties* as issued by the American Institute of Certified Public Accountants where the comfort provided is referred to as a "negative assurance" statement. We believe the term "auditor's statement" reinforces that no assurance is provided in the comfort letter.

We also support the requirement for the auditor and the requesting party to agree to the terms of the engagement in a written engagement agreement. It has not been market practice for requesting parties to sign the engagement agreement with respect to the comfort letters issued in relation to US offerings. This is on the basis that the comfort letter engagement is conducted in accordance with SAS 72 *Letters for Underwriters and Certain Other Requesting Parties*. The view of the requesting parties has been that this is not required as SAS 72 clearly identifies the responsibilities of each party and describes the arrangement and procedures under which a comfort letter is issued by the auditor. In our view, the requirement in the Proposed Standard is consistent with existing Auditing Standards whereby the terms and conditions of both assurance and non-assurance services are documented in a written engagement agreement.

Our responses to the specific questions that the AUASB has raised are outlined in section 1, and key comments on specific areas of the Proposed Standard are set out in section 2 of this letter. More detailed comments, including general editorial comments, are included in Appendix 1.

1. Responses to the AUASB's Specific Questions

Questions

1. Have applicable laws and regulations been appropriately addressed in the Proposed Standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit-related services?
5. Are there any other significant public interest matters that constituents wish to raise?

We believe that all applicable laws and regulations have been appropriately addressed in the Proposed Standard and we are not aware of any omitted references. In our view, there are no additional significant costs to/ benefits arising from compliance with the requirements of the Proposed Standard and there are no other significant public interest matters to raise.

2. Comments on Specific Areas of the Proposed Standard

2.1 Applicable Financial Reporting Framework

The definition of “applicable financial reporting framework” in paragraph 10(a) uses the term “general purpose” to describe the preparation of the financial information of the entity. This implies that the comfort letter can only be provided when the entity has previously issued general purpose financial statements. It is unclear whether the definition intends to limit the issue of comfort letters to where this condition is met or whether previously issued special purpose financial reports would be acceptable in order to issue a comfort letter.

We recommend that the definition of applicable financial reporting framework be clarified with respect to the above issue.

2.2 Procedures and Use of the Term “Factual Findings”

The definition of “procedures” in paragraph 10(q) includes a statement that this may also be referred to as “agreed-upon procedures”. The Proposed Standard permits the auditor to issue a comfort letter with an auditor’s statement when certain conditions are met. Where pre-conditions to issuing a comfort letter are not met, the auditor is restricted to performing the specified procedures and to report factual findings obtained.

Further the Proposed Standard requires the auditor to maintain documentation on the nature, timing and extent of the procedures performed as specified by the requesting parties and the “factual findings” obtained.

We believe that the definition of “procedures” and use of the term “factual findings” are confusing (for instance, in paragraphs 45 and 68(a)) as in some cases, they have been used interchangeably for both when a comfort letter in which an “auditor’s statement” is provided, and when a comfort letter in which a “report of factual findings on agreed-upon procedures is performed”. We recommend that a careful review of the Proposed Standard is performed to ensure that the terms are appropriately referenced, as applicable, in the requirements and guidance.

We welcome the opportunity to contribute to the improvement of Auditing Standards on Related Services that will continue to drive the quality and consistency on such services in Australia. We would be pleased to discuss our comments with members of the Australian Auditing Standards Board and its staff. If you wish to do so, please contact either Denis Thorn (03 8650 7637) or myself on (03 9288 8647).

Yours sincerely

A handwritten signature in black ink, appearing to read 'A J Johnson', with a large, stylized flourish at the end.

A J (Tony) Johnson
Managing Partner - Assurance

Further Detailed Comments on the Proposed Standard, including General Editorial Comments

Paragraph/ Appendix	Section	Comment
5(b)	Scope of this standard on related service	This contains a reference to "revised" financial statements in the last line which should be replaced with " <u>reviewed</u> " financial statements of the entity.
10(g)	Definitions - comfort letter	We suggest an editorial change in the definition of comfort letter to read as follows: "related to, and <u>in</u> connection with an entity's financial information".
14(c)(iv)	Preconditions of providing a comfort letter	We believe that this requirement would benefit from guidance material as to why a confirmation is required when the financial information that is the subject of the comfort letter does not include a financial forecast. The guidance should also consider the implications the auditor may consider for the comfort letter when the offering document does, in fact, include financial forecasts.
14(f)	Preconditions of providing a comfort letter	The opening text in paragraph 14(f) does not flow on from the lead sentence at the start of paragraph 14. It looks like this was intended to be paragraph 14(e)(v).
14(f)	Preconditions of providing a comfort letter	<p>Although paragraph 14(f) of the Proposed Standard requires the auditor to obtain a signed representation statement prior to the commencement of the engagement, it does not specify who these representations are required from. We believe that it should be clarified in the requirement that the requesting party should provide these representations.</p> <p>Further, the representations as they are currently worded may not be able to be made prior to the engagement as at this stage, the offering document may not be available and the review process being undertaken is still in progress. It would be more helpful to amend the wording to read as follows: "that they have conducted/ <u>are in the process of conducting</u> a review process on the offering document substantially consistent with the due diligence process that would be performed if the offering were being undertaken pursuant to the applicable law or regulation".</p>
28	General	This requires the auditor to consider the effect of a modified conclusion on the comfort letter. We believe that the Standard should provide further discussion and guidance material on what these considerations should be and how this is reflected in the comfort letter.
33	Pro forma financial information	We suggest an editorial change in the first sentence to read: "The auditor shall not provide an auditor's statement in a comfort letter <u>with respect to</u> " prior to listing the specific items to be considered.
60(h)(iv)	Format and contents of the comfort letter	We understand that the comfort letter "...shall include the amount of the changes ...", however, it is unclear whether the auditor is able to quantify the increases and decreases if specified by the requesting party. We recommend additional guidance material be included to address the practical issues which may arise where changes occur in the subsequent change period.

Further Detailed Comments on the Proposed Standard, including General Editorial Comments

Paragraph/ Appendix	Section	Comment
64	Auditor's statement	Paragraph 15(b) of the proposed Standard indicates that where the required representations are not received from the requesting party, the auditor should only provide a factual findings report and not an auditor's statement with respect to the subsequent change period in the comfort letter. However, subsequently in paragraph 64, there is a requirement that additional specific "representations" may be included in the comfort letter where the requesting party refuses to provide written representations. We believe that the effect of these representations is not clear as to whether these relate to the factual findings report or whether, in fact, by including these additional representations in the comfort letter, the auditor can continue to issue an "auditor's statement" as you would in a "normal" comfort letter.
64	Auditor's statement	Paragraph 64 makes reference to the "due diligence defence representation". As this paragraph is the first introduction to this concept, we recommend that additional guidance be provided for what this means.
64(b)	Auditor's statement	Refers to the procedures as "... do not constitute an audit..". We recommend an editorial change to read "do not constitute an audit <u>or review</u> ". Further the paragraph 64(b) also refers to the word "consolidated" which should be removed, or available as an option in brackets.
65	Preparing a bring down comfort letter	This requirement refers to the auditor "reviewing" appropriate updated management representations should be amended to "read" or "considering" as the term "review" may broaden the scope.
Appendix 1	Example engagement letter	<p>We recommend the following editorial changes as follows:</p> <ul style="list-style-type: none"> ➤ paragraph 15 to read "with this Engagement Letter and have been requested". ➤ capital letters on the use of "Engagement Letter" (para 18), "Lead Manager" (para 19(a)), and "Addressees" (para 19(c)) for consistency. ➤ paragraph 19(a)(ii) for last line to read as follows: "Addressees with wish to draw on the subject matter". ➤ reference to "entity" in paragraph 19(b) to be replaced with "Issuer". ➤ the last line in paragraph 23 to read as "in contract or in tort (including negligence <u>or otherwise</u>) for our answers". ➤ paragraph 28 to read : "in relation to this contract, Engagement Letter". ➤ In paragraph 29, generally the Engagement Letter is structured so that all the additional terms and conditions apply to all of the Addressees and exceptions are usually made for the "Managers". Suggest amendment to read as "<i>such</i> terms and conditions, to the Issuer Addressees, except that Paragraphs [X] and [X] shall <u>not</u> apply to all the Addressees Managers" ➤ reference to arrangement letter in paragraph 31 should be changed to "Engagement Letter" for consistency.

Further Detailed Comments on the Proposed Standard, including General Editorial Comments

Paragraph/ Appendix	Section	Comment
Appendix 2	Example entity representation letter	On page 59 it indicates the representations are provided based on “having made appropriate enquiries of directors and officials of the entity ...” which does not make sense given the representation letter is, in fact, provided “for and on behalf of the directors of the entity” (page 62).
Appendix 2	Example entity representation letter	At point 14 (page 61) it appears to repeat the same information from the previous paragraph.
Appendix 3	Example comfort letter	On page 64 at point 2 it states “enquired of certain officials of the company who have responsibility for financial and accounting matters ...”. We believe that this should be more specific to identifying the names and positions of the officials with whom inquiries have been made. We recommend amending the wording here to be consistent to page 67 at point 5 which states “... have made enquiries of [give name and positions of ...”.
Appendix 3	Example comfort letter	The cross references between specified procedures performed and the findings of such procedures need to be rechecked as a number of corresponding paragraph cross references are incorrect e.g. at paragraph 5(a) it should refer to paragraph (6), paragraph 10 it should refer to paragraph 5 and a number of references need to be corrected at paragraph 11.
Appendix 3	Example comfort letter	Paragraph 13 is redundant as this statement is already at paragraph 7.
Appendix 4	Example bring down letter	Paragraph 2(c) on the last line does not specify the period “from” adequately being the “... the period from [day after the new cut-off date] to [date of letter]”.
Other templates	-	We recommend that an illustrative requesting party representation be included in the Proposed Standard.