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Explanatory Guide to applying ASRS 4450 *Comfort Letter Engagements*

Issued by the **Auditing and Assurance Standards Board**



Australian Government

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Explanatory Guide to applying ASRS 4450 *Comfort Letter Engagements*

This Explanatory Guide to applying ASRS 4450 *Comfort Letter Engagements* is issued by the Auditing and Assurance Standards Board (AUASB).

This Explanatory Guide:

1. is not an AUASB Guidance Statement that provides guidance to assist auditors and assurance practitioners to fulfil the objectives of the audit or assurance engagement; and
2. does not itself establish or extend requirements for the performance of audit, review, or other assurance engagements under the AUASB Standards.

Disclaimer:

Explanatory Guide to applying ASRS 4450 *Comfort Letter Engagements* (ASRS 4450) has been developed by the Auditing and Assurance Standards Board to provide guidance on the application of ASRS 4450. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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EXPLANATORY GUIDE

to applying ASRS 4450 *Comfort Letter Engagements*

Purpose

Standard on Related Services ASRS 4450 *Comfort Letter Engagements* (ASRS 4450) has been issued by the Auditing and Assurance Standards Board (AUASB) and is operative for auditors commencing comfort letter engagements on or after 1 July 2013, with early adoption permitted, as appropriate. This Explanatory Guide is published by the AUASB to assist auditors in understanding the application of the new Standard, which does not replace an existing Standard. There is no equivalent Standard issued by the International Auditing and Assurance Standards Board. This Explanatory Guide is not intended to be a substitute for reading ASRS 4450.

Background

ASRS 4450 was developed by the AUASB in the public interest in response to practitioner's request for the AUASB to issue a Standard covering comfort letter engagements conducted by Australian auditors with similar content to that contained in Statement on Auditing Standards SAS 72 *Letters for Underwriters and Certain Other Requesting Parties* (Redrafted) as issued by the American Institute of Certified Public Accountants (AICPA). The principles and procedures in SAS 72 have been widely used by Australian auditors, in the absence of an Australian standard, for comfort letter engagements involving requesting parties that are inside or outside the United States of America. The AUASB decided that the Standard should be non-jurisdictional in scope and use SAS 72 as the starting base for developing ASRS 4450 by incorporating its key principles and procedures whenever they were non-jurisdictional specific. Additionally, the AUASB sought and received feedback from specific practitioner representatives and through the exposure process (ED 03/11) from interested respondents, on other principles and procedures that would ensure the Standard had the widest possible application in jurisdictions without an existing comfort letter standard; it reflected best market practice; contained requirements (and related guidance) in the public interest, and was consistent, where appropriate, with existing AUASB Standards.

ASRS 4450 is not issued as a legislative instrument under the *Legislative Instruments Act 2003*, as there is no requirement for comfort letter engagements under the *Corporations Act 2001*. Further, the Standard is not an auditing or assurance standard as a comfort letter engagement involves no expression of assurance by the auditor on the results of the work performed.

Introduction

Entities intending to issue an offering document may request their appointed auditor to prepare a comfort letter, to provide to certain requesting parties associated with the offering (for example underwriters, buyers, sellers, brokers, or selling agents appointed by the entity in connection with the offering) to report results in respect of certain financial information within the offering document. The request for an auditor's comfort letter is part of a range of procedures requesting parties use to establish a due diligence defence against exposure to any liability arising from material omissions or misstatements in the entity's offering document.

Application

In Australia

In summary, ASRS 4450 applies to engagements when the auditor of an entity provides a comfort letter to certain requesting parties in respect of particular financial information related to, and/or included in, an offering document. As noted above, the Standard is non-jurisdictional specific and is applicable to auditors' comfort letters provided to either Australian or overseas-based requesting parties, although the AUASB expects that the majority of engagements will primarily relate to comfort letters being provided to overseas-based requesting parties. This is due to it not being current Australian market practice to request an auditor's comfort letter for Australian offerings, however if the engagement circumstances require, then ASRS 4450 applies.

In overseas jurisdictions

ASRS 4450 recognises that requesting parties in another jurisdiction may request the comfort letter be prepared in accordance with another jurisdiction's comfort letter standard rather than ASRS 4450, and it allows the Australian auditor to accept such an engagement provided that that standard has been issued by a national auditing standards setting body (refer Paragraph 8 of the Standard). An example of such a standard is *Statement on Auditing Standards SAS 72 Letters for Underwrites and Certain Other Requesting Parties*, issued by the American Institute of Certified Public Accountants, which as explained above, was the starting point for the development of ASRS 4450. In such a case, the auditor would conduct, and report on, the engagement in accordance with the requirements of SAS 72 (the applicable jurisdiction's standard) and would not be required to comply with ASRS 4450. Alternatively, if there is no comfort letter standard in the requesting parties jurisdiction, or if the Standard has not been issued by the national auditing standards setting body, then the auditor must conduct, and report on, the engagement in accordance with ASRS 4450.

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It should be noted that ASRS 4450 is not equivalent in its requirements, related guidance or terminology to SAS 72. For the reasons outlined above, it does contain additional requirements, particularly in the areas of preconditions for providing the comfort letter, engagement acceptance, written representations and the minimum elements required for some of the letters related to the comfort letter engagement. Consistent with SAS 72, ASRS 4450 does contain appendices with an illustrative engagement letter, representation letter, comfort letter, and bring down comfort letter to assist practitioners in applying the applicable requirements of the Standard.

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