



Project Plan

Project ID: 2009-2
Approved:
6 April 2009

Project title: Comfort Letters

Project objective(s): *FRC Strategic Direction*
“(e) *The AUASB should continue to develop auditing and assurance standards other than for historical financial information as well as developing and issuing other guidance on auditing and assurance matters ...*”.

Priority: High

Issue/reason: To develop an Australian Standards on Assurance Engagements related to auditor’s comfort letters to underwriters and other third parties in connection with fundraisings.

Project Objectives

This project aims to develop and issue a new Standard on Assurance Engagements (ASAE) covering comfort letters to certain parties related to a fundraising transaction. This will be a new Standard and will therefore not replace an existing AUASB Standard or Guidance Statement.

Stakeholders

1. Auditors
2. ASIC
3. ICAA, CPA Australia and IPA (collectively referred to as the Professional Accounting Bodies)
4. AASB, APESB
5. Underwriters

Background

This project is being undertaken to develop a pronouncement for Auditors Comfort Letters for Underwriters and Other Requesting Parties in Connection with International Fundraisings and Other Similar International Transactions. The AUASB were asked to consider developing the standard in a formal request from the Institute of Chartered Accountants of Australia (ICAA) on 11 November 2008 for an Australian equivalent of the United States AICPA Statement of Auditing Standard, SAS 72 *Letters for Underwriters and Certain Other Requesting Parties*. The pronouncement is envisaged to be applicable to engagements performed by Australian auditors for international fundraisings (e.g. share offerings and bond issues, and including cross-border filings) and similar international transactions (e.g. mergers and acquisitions),

where the practitioner is requested to issue a comfort letter in respect of certain financial information included in an offering/fundraising document.

Given there currently is no single Australian pronouncement (whether an Assurance Standard or Guidance Statement) that specifically deals with the responsibilities of auditors when performing and reporting on international comfort letter engagements, Australian auditors typically follow the U.S SAS 72 requirements (for US-based offerings) and ICMA guidance (for Europe-based offerings), or comply broadly with AUS 904 *Engagements to Perform Agreed-Upon Procedures*.

U.S SAS 72 Auditing Standard discusses the requirements and provides guidance to auditor's being requested to issue letters (commonly called "comfort letters") to underwriters and other requesting parties during fundraisings, in connection with financial statements and other financial information included in offering documents (also known as registration statements). Such offering documents are filed with the U.S. Securities and Exchange Commission (SEC) under the *Securities Act of 1933*; however, the comfort letters issued are not filed with the SEC. However, it is a common condition of an underwriting agreement for a public offering registered with the SEC for auditors to provide a comfort letter to the underwriter of such offering. SAS 72 includes requirements and guidance related to:

- Types of financial information included in offering documents submitted to the SEC;
- Scope of and limitations on the work that an accountant should perform on such financial information;
- Level of assurance that accountants should provide on the various types of financial information; and
- Reporting results of work performed on the financial information in the comfort letter.

Risks/Issues

The key issues relating to the development of the proposed ASAE are as follows:

1. Nature of the pronouncement, that is, whether it would be more appropriate to develop an Assurance Standard (ASAE) or Guidance Statement (GS).
2. Current market practices for undertaking comfort letter engagements (mostly aligned with SAS 72 requirements and ICMA guidance) are not consistent with the Australian assurance and regulatory framework.
3. Preconditions for the auditor to accept a comfort letter engagement, and terms of the engagement.

Action Plan

The AUASB Technical Group recommends conducting the project as follows: develop a single Assurance Standard titled *Comfort Letters* that contain requirements and related guidance (particularly illustrative letters) into one standard.

Resources

AUASB Technical Group and Project Advisory Group

A Project Advisory Group (PAG) will be established, with members consisting of practitioners (Big 4 and mid-tier firm partners) and AUASB Technical Group staff. The PAG will be responsible for providing technical advice and assistance to the AUASB Board on the development of the proposed ASAE.

Timetable

Date	Description
6 April 2009	AUASB Board approves Project plan
May 2009 - November 2009	Consider form and content of the pronouncement as either an Standard on Assurance Engagements (ASAE) or a Guidance Statement
February 2010	AUASB Board approved form of Comfort Letters as an ASAE
February 2010 - July 2011	Develop Exposure Draft
25 July 2011	AUASB Board approved change in form of Exposure Draft from ASAE to Australian Standard on Related Services (ASRS)
12 September 2011	AUASB Board to consider approval of ASRS Exposure Draft
September - October 2011	Issue Exposure Draft
December 2011	Receive constituent comments from Exposure Draft process
January 2012 - February 2012	Consider constituent comments from Exposure Draft process
February 2012	Issue final Standard