



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **10(a)**

Meeting Date: 27 February 2012

Subject: Comfort Letters Standard: Considerations of Key ED comments on Proposed Standard

Date: 13 February 2012

Action Required

For Information Purposes Only

Agenda Item Objectives

- (a) To summarise key issues identified from respondents to the Exposure Draft and the AUASB Technical Groups recommendations for addressing the issues. [Refer to Agenda Item 10.1 for the detail of each respondent's comments on the key issues below]; and
- (b) To receive the AUASB Board's feedback on the proposed changes to the Standard, and, subject to any changes requested by the Board, seek the Board's approval to issue the Standard.

Background

The proposed Standard on Related Services (ASRS) ASRS 4450 *Comfort Letter Engagements* has been updated to reflect the respondents' comments received during the exposure period which the AUASB Technical Group has agreed with. Refer to Agenda Item 10(a).4 for all comments received. Given the number of comments received, we have summarised respondent's key issues below, together with the AUASB Technical Group responses.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Key Issues & AUASB Technical Group Recommendations

1. ***Relationship with applicable Standards of other jurisdictions*** (Paragraph 8)

Issue

It was strongly suggested by the majority of respondents that this “requirement” for the auditor to refer in the comfort letter to this ASRS and another standard issued by national auditing standards body should be removed as there is potential conflict between the requirements under the proposed standard and standards of other jurisdictions, specifically the U.S. (*SAS 72 Letters for Underwriters and Certain Other Requesting Parties*). Such differences were seen as being not acceptable in those jurisdictions which have a comfort letter auditing standard in place and were seen as having the potential to delay the offering process for Australian financial institutions in the U.S. It was also highlighted that the differences mean that this standard is not equivalent to the U.S standard. Consequently, the majority of respondents felt that paragraph 8 should either be deleted or modified.

AUASB Technical Group Recommendation

The AUASB Technical Group has considered the comments received and believes that paragraph 8 should be amended to clarify that the intent of the paragraph is to allow Australian auditors the choice of either applying an existing standard in the overseas jurisdiction that applies to comfort letters, or in the absence of such a standard that ASRS 4450 applies (ASRS being non-jurisdictional in scope). Further, the ASRS is not intended to be applied ‘alongside’ another standard (e.g. SAS 72), so differences in terminology, content or format are not an issue. The AUASB Technical Group agrees with respondent comments (although noting Paragraph 8 is not a requirement but part of the scope section) and consequently recommends the paragraph be drafted as follows:

“The auditor may undertake a comfort letter engagement in accordance with:

- (a) this ASRS, when issuing a comfort letter to requesting parties in a jurisdiction whether there is no existing standard issued by a national auditing standards setting body; or
- (b) the requirements of another standard, when issuing a comfort letter to requesting parties in jurisdictions where the other standard has been issued by a national auditing standards setting body.*”

* For example, *SAS 72 Letters for Underwriters and Certain Other Requesting Parties*, issued by the American Institute of Certified Public Accountants and Hong Kong Standard on Investment Circular Reporting Engagements 400 *Comfort Letters and Due Diligence Meetings on Financial and Non-Financial Information*, issued by the Hong Kong Institute of Certified Public Accountants.

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2. ***Domestic Offerings in the scope of the Standard*** (Paragraphs 1 & A2)

Issue

One respondent felt that the inclusion of domestic offerings (via Paragraphs 1 & A2) within the scope of the standard could lead to conflicts with APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* issued by the APESB.

AUASB Technical Group Recommendation

The AUASB Technical Group is of the view that no such conflict currently exists with APES 350 and that domestic offerings should not be excluded from the scope of an Australian issued standard.

3. ***Change period definition*** (Paragraph 10(f))

Issue

The definition of 'change period' was seen by some respondents as being inconsistent with the requirements of SAS 72, as well as being confusing and not easy to understand.

AUASB Technical Group Recommendation

The AUASB Technical Group agrees with the comments received and has accordingly amended the definition to clarify.

4. ***Signed Engagement Letter*** (Paragraph 17)

Issue

Some respondents noted that there is no requirement in SAS 72 for a requesting party to sign an engagement letter (indeed there is no requirement for an engagement letter at all) and accordingly they felt it was likely that the requirement would not be acceptable for U.S offerings.

AUASB Technical Group Recommendation

The AUASB Technical Group considers, in light of the paragraph 8 changes noted above at (1), that the request for an engagement letter to be signed should be retained as it is consistent with the AUASB's assurance framework and the requirements of other AUASB pronouncements (in the area of requesting responsible parties to sign the engagement letter as acceptance of engagement terms). The AUASB Technical Group therefore recommends retaining the requirement for a signed engagement letter.

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5. ***Due diligence defence representation*** (Paragraph 64)

Issue

One respondent suggested that paragraph 64 be amended/deleted as it conflicted with paragraph 15 (preconditions for the engagement), arguing that if such a representation was agreed to through the preconditions stage, the auditor would not agree to the engagement.

AUASB Technical Group Recommendation

The AUASB Technical Group agrees with the suggestion and has accordingly amended paragraph 64.

Matters to Consider

The AUASB Board is requested to consider the following:

- (a) Key Issues Paper [Agenda Item 10(a).1];
- (b) Proposed Standard (Clean Version) [Agenda Item 10(a).3]; and
- (c) AUASB Comments Received and Proposed Disposition Paper [Agenda Item 10(a).4]

and, subject to any changes requested by the Board, approve the proposed standard for issue.

Material Presented

Agenda Item 10(a)	Board Meeting Summary Paper
Agenda Item 10(a).1	Attachment to Board Meeting Summary Paper – Key Issues Paper
Agenda Item 10(a).2	Proposed Standard (Marked Up Version)
Agenda Item 10(a).3	Proposed Standard (Clean Version)
Agenda Item 10(a).4	AUASB Comments Received and Proposed Disposition Paper

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