

EXPOSURE DRAFT

ED 03/11
(September 2011)

Proposed Standard on Related Services ASRS 4450 *Comfort Letter Engagements*

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



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 15 November 2011. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au

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PREFACE

Reasons for Issuing ED 03/11

The AUASB issues a Standard on Related Services ASRS 4450 *Comfort Letter Engagements*, pursuant to the requirements of the legislative provisions explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate standards for other purposes.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB develops auditing and assurance standards for historical and non-historical financial information. The AUASB issues standards considered to be in the public interest. Accordingly, the AUASB has decided to issue ASRS 4450 *Comfort Letter Engagements*.

Proposed Standard on Related Services ASRS 4450
Comfort Letter Engagements

Main Proposals

This proposed Standard on Related Services establishes requirements and provides application and other explanatory material for auditors undertaking and reporting in comfort letter engagements.

Proposed Operative Date

It is intended that this proposed Standard on Related Services will be operative for engagements commencing on or after 1 July 2012.

New Standard on Related Services

This proposed Standard on Related Services is a new pronouncement of the AUASB and accordingly does not supersede a pre-existing Standard on Related Services.

Request for Comments

Comments are invited on this Exposure Draft of the proposed issuance of ASRS 4450 *Comfort Letter Engagements* by no later than 15 November 2011. The AUASB is seeking comments from respondents on the following 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?

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The AUASB prefers that respondents express a clear opinion on whether the proposed Standard on Related Services, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the Standard on Related Services.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Related Services ASRS 4450 *Comfort Letter Engagements*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Related Services is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied.

STANDARD ON RELATED SERVICES ASRS 4450

Comfort Letter Engagements

Application

1. This Standard on Related Services applies to engagements relating to the auditor of an entity providing a comfort letter to certain requesting parties in respect of particular financial information related to, and included in, an offering document.

Operative Date

2. This Standard on Related Services is operative for comfort letter engagements commencing on or after 1 July 2012.

Introduction

Scope of this Standard on Related Services

3. This Standard on Related Services (ASRS) addresses the auditor's responsibilities when requested by the entity making an offering to provide a comfort letter to certain requesting parties relating to particular financial information included in the entity's offering document. The auditor is ordinarily the appointed auditor of the entity for the period covered by the comfort letter and the entity ordinarily receives a copy of the comfort letter. The requesting parties are underwriters, buyers, sellers, brokers or selling agents appointed by the entity in connection with an offering being undertaken by the entity. The comfort letter is based on the auditor having performed the requesting parties' specified procedures and consequently no assurance is expressed in the comfort letter. The auditor is not required by any AUASB Standard to accept the engagement, and ordinarily does so only if certain preconditions are met by both the entity and requesting parties. (Ref: Para. A1)
4. Any request by the entity to the auditor to perform an audit or review of the entity's interim financial information included in the offering document is covered by a separate engagement to the comfort letter engagement and performed in accordance with applicable AUASB Standards.

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5. The subject matter that may be covered in a comfort letter includes:
- (a) the independence of the auditor;
 - (b) unaudited financial statements, interim financial information, pro forma historical financial information and changes in selected financial statement items during a period subsequent to the date and period of the latest audited and /or revised financial statements of the entity; and
 - (c) tables, statistics, and other financial information included in the offering document.

Types of Offerings Covered by this ASRS

6. The following types of offerings are included within the scope of this ASRS: (Ref: Para. A2)
- (a) initial public offerings;
 - (b) overseas private placements of equity or debt securities;
 - (c) offerings of debt securities that are issued or backed by public sector entities in overseas jurisdictions; and
 - (d) acquisition of, or merger with, another entity domiciled in an overseas jurisdiction, where there is an exchange of equity shares between the two entities.

Comfort Letters Provided to Requesting Parties outside Australia

7. In certain jurisdictions, requesting parties who are underwriters may be held liable under applicable law or regulation for any material omissions or misstatements in an offering document. Requesting the entity's auditor to issue a comfort letter in respect of particular financial information included in the offering document is one of a number of procedures that may be used by the requesting parties to establish a due diligence defence against exposure to any liability.

Relationship with applicable Standards of other jurisdictions

8. The auditor may undertake a comfort letter engagement in accordance with the requirements of this ASRS and the requirements of an equivalent Standard issued by a national auditing standards

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setting body.¹ In such an engagement, the auditor shall include a reference to both Standards in the comfort letter.

Objective

9. The objective of the auditor when requested to provide a comfort letter is to ensure:
- (a) that the preconditions for accepting the engagement are met; and
 - (b) the appropriate form and content of the comfort letter are used to report the results of performing the procedures specified by the requesting parties on particular financial information related to, and included in, an offering document.

Definitions

10. For purposes of this ASRS, the following terms have the meanings attributed below:
- (a) Applicable financial reporting framework means the financial reporting framework adopted by the entity in the preparation of the general purpose financial information of the entity that is acceptable based on the nature of the entity or as required by law or regulation. In Australia, an applicable financial reporting framework that may be used in preparing general purpose financial information is represented by the Australian Accounting Standards which are IFRS compliant, or applicable law, such as the *Corporations Act 2001*. Other frameworks often requested are the International Financial Reporting Standards, issued by the International Accounting Standards Board and the Generally Accepted Accounting Principles of the United States.
 - (b) Auditor means the person or firm appointed to audit an entity's financial report.

¹ 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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- (c) Auditor's statement means a statement by the auditor that based on the procedures performed, nothing has come to the auditor's attention that caused the auditor to believe that specified matters do not meet specified criteria.
- (d) Bring down comfort letter means a letter prepared and issued by the auditor subsequent to the issuance of the initial comfort letter, that updates and reaffirms the results of the specified procedures described in that comfort letter as at a certain date.
- (e) Change period means the period specified by the requesting parties ending on the date ("cut-off date") as of which certain procedures described in the comfort letter are performed. It begins immediately after the date of the latest audited or reviewed financial statements prepared by the entity that are included in, or incorporated by reference, in the offering document and does not extend beyond the day before the date of the end of the entity's next financial reporting period.
- (f) Closing date means the date on which the issuer of the securities or selling security holder delivers the securities to the underwriter in exchange for the proceeds of the offering.
- (g) Comfort letter means a letter issued by an auditor in accordance with this ASRS to requesting parties related to, and connection with an entity's financial information included in an offering document.
- (h) Comparison date and comparison period mean the dates as of which, and periods for which, data at the cut-off date and data for the change period are to be compared.
- (i) Cross-border offering means an offering or listing that occurs in a jurisdiction other than the entity's domicile, and which may or may not occur concurrently in the entity's domicile.
- (j) Cut-off date means the date to which certain procedures related to change period financial information described in the comfort letter are to relate.

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- (k) Domestic offering means a securities offering that occurs in Australia.
- (l) Entity means the party whose financial statements or financial information is the subject of the comfort letter engagement.
- (m) Financial information means information of a financial nature that is the subject matter of the auditor's comfort letter. It is ordinarily in the form of interim or year-end historical financial information or pro forma historical financial information.
- (n) Issuer means the issuer of the securities offering, and includes any person directly or indirectly controlling or controlled by the issuer, or any person under direct or indirect common control with the issuer.
- (o) Offering means the making available of an entity's equity or debt securities to parties (who may be in overseas jurisdictions) ordinarily through:
 - (i) the sale of securities to the public under a prospectus;
 - (ii) foreign offerings;
 - (iii) an exempt transaction or offering (for example, a private placement of equity or debt securities to a limited number of investors, or an offering of debt securities issued or backed by public sector entities);
 - (iv) certain securities transactions covered by specific laws or regulations (for example, exchange of shares in merger transactions); or
 - (v) acquisition transactions in which there is an exchange of equity.
- (p) Private placement means securities offered for sale or exchange in a prospectus to a limited number of investors, which are exempt, by law or regulation ("exempt offering").

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- (q) Procedures mean procedures performed by the auditor, which are specified by the requesting parties. The auditor does not determine whether the extent of such procedures is sufficient for the purposes of the requesting parties. They may also be referred to as agreed-upon procedures.
- (r) Pro forma information means information that includes adjustments directly attributable and factually supported by the transactions. All adjustments should be in accordance with an applicable financial reporting framework.
- (s) Representation letter means a letter prepared by the entity at the request of the auditor that confirms specific matters relating to the comfort letter engagement.
- (t) Requesting parties means third party underwriter(s) and/or other parties involved with the entity's securities offering (such as financial intermediaries, buyers, sellers, brokers or selling agents) that have agreed to be bound by the auditor's engagement letter in order to request the auditor's comfort letter, and may receive the comfort letter if they sign the auditor's engagement letter.
- (u) Responsible party of the entity means those charged with governance of the entity (ordinarily the Board of Directors) who are responsible for the preparation of the offering document, and who engage the auditor to issue a comfort letter to the requesting parties and provide a copy to them.
- (v) Underwriter means any person or their agent who has purchased, or intends to purchase securities from an issuer with a view to, or offers or sells for an issuer in connection with, the distribution of any security, or participates or has a direct or indirect participation in any such undertaking. This ASRS also uses the term underwriter to refer to the managing or lead underwriter who ordinarily negotiates the underwriting agreement on behalf of a group of underwriters whose exact composition is not determined until shortly before an offering document becomes effective. The underwriters may or may not be named in the offering document, and are commonly referred to as the requesting parties.
- (w) Underwriting agreement means a formal agreement between the underwriter(s) and the responsible party of the

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entity with respect to the entity's offering document. It may specify the form and content of the comfort letter to be requested of the auditor, or that the form and content is to be specified by the requesting parties at a later time. The auditor is not a party to the underwriting agreement.

Requirements

Ethical Requirements

11. When conducting a comfort letter engagement, the auditor shall comply with relevant ethical requirements.²

Engagement Acceptance

12. Nothing in this ASRS requires the auditor of an entity to accept a request to prepare a comfort letter, and the auditor shall evaluate all such requests in terms of individual engagement circumstances.
13. When a comfort letter is requested from more than one auditor, the requirements of this ASRS apply to each auditor.

Preconditions for Providing a Comfort Letter

14. The auditor shall, prior to agreeing the terms of providing the comfort letter:
 - (a) discuss with the entity who the requesting parties are that the comfort letter will be provided to;
 - (b) obtain an understanding of the applicable financial reporting framework used in the preparation of the financial information and the internal control environment for any change period financial information;
 - (c) discuss with the requesting parties and the entity to:
(Ref: Para. A3)
 - (i) obtain an understanding of the specific matters to be addressed in the comfort letter;

² The ethical requirements, including independence applicable to other assurance engagements are defined in ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

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- (ii) obtain an understanding of whether a bring down comfort letter will be required covering change period financial information;
 - (iii) obtain an understanding of the nature of the transaction giving rise to the preparation of the offering document, the jurisdiction(s) into which the offering document will be issued and applicable law or regulation that may affect the comfort letter;
 - (iv) confirm that the financial information that is the subject of the comfort letter does not include a financial forecast;
 - (v) understand the procedures that the requesting parties require to be performed for each type of financial information, and explain in any discussion of procedures that the auditor cannot and does not provide any assurance regarding the sufficiency of the procedures for the requesting parties' purposes;
- (d) confirm whether the entity³ acknowledges and accepts their responsibility for:
- (i) the preparation of the offering document;
 - (ii) the preparation and presentation of the financial information included in the offering document in accordance with the entity's selected applicable financial reporting framework;
 - (iii) the representation that the financial information and other information included in the offering document does not include information that is unacceptable or misleading for its intended purpose;
 - (iv) the maintenance of proper financial records and systems which facilitate the preparation of the financial information;

³ Where the entity is not the issuer (e.g. a target in an acquisition or a guarantor), they may not have primary responsibility for (i) (ii) or (iii). Their responsibility would primarily be the financial statements.

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- (v) such internal control related to financial reporting as the entity determines is necessary to enable the preparation of financial information that is free from material misstatement and fraud;
- (vi) providing the auditor in a timely manner with:
 - ◇ access to all information (including a copy of the final offering document) and persons within the entity;
 - ◇ written representations covering all matters requested by the auditor; and
 - ◇ an update of any information the entity becomes aware of during the engagement that may impact the comfort letter;
- (e) confirm whether the requesting parties acknowledge and accept their responsibility for:
 - (i) providing a signed final underwriting agreement to the auditor before the comfort letter can be issued;
 - (ii) determining the nature, timing and extent of the procedures to be performed by the auditor, as well as the sufficiency of such procedures for the requesting parties purposes;
 - (iii) communicating to the auditor the procedures they are to perform in sufficient detail that the auditor will not be required to exercise any professional judgement in determining or modifying the procedures, or be held responsible for the sufficiency of such procedures for the requesting parties' purposes;
 - (iv) conducting a due diligence investigation; and
- (f) provide a signed representation to the auditor prior to the commencement of the engagement that confirms:
(Ref: Para. A4)

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- (i) that they have a due diligence defence available to them under applicable law or regulation (Ref. Para. A5); OR
 - (ii) that they have conducted 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. (Ref. Para. A6)
15. If the preconditions for providing the comfort letter set out in paragraphs 14(a) to 14(f) of this ASRS are not present, the auditor either:
- (a) does not agree to prepare the comfort letter under this ASRS; or
 - (b) agrees to prepare the comfort letter without an auditor's statement in respect of the financial information, and reporting only factual findings in accordance with *ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings*; or
 - (c) chooses not to accept the engagement.

Agreeing on the Terms of Engagement

16. The auditor shall document the agreed terms of engagement in an engagement letter, addressed to the entity and requesting parties, which shall include, at a minimum:
- (a) an introduction that summarises the auditor's understanding of the nature of the transaction giving rise to the preparation of an offering document;
 - (b) a statement identifying the addressees of the comfort letter; (Ref: Para. A7)
 - (c) a statement that the engagement will be conducted in accordance with this ASRS, in compliance with relevant ethical requirements, including independence,⁴ and the applicable law of Australia; (Ref: Para. A8)

⁴ See ASA 102.

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- (d) that the agreed purpose of the engagement is to provide a comfort letter to the addressees solely for use in a due diligence defence, and restricting its distribution to only the addressees, or otherwise by prior written consent;
 - (e) statements in respect of the work to be performed:
 - (i) that the auditor will perform the procedures specified by the requesting parties up to a certain date in respect of particular financial information related to, and included in the offering document and will issue the comfort letter within the agreed timeframe; (Ref: Para. A8)
 - (ii) if applicable, that the auditor will provide a draft copy of the comfort letter, setting out the expected form and content of the comfort letter, together with a statement that there may be circumstances in which the final comfort letter may differ from the draft; (Ref: Para. A9)
 - (iii) that the sufficiency of the comfort letter procedures for the requesting parties' purposes is for the requesting parties to decide, and not the auditor; (Ref: Para. A10)
 - (iv) if applicable, that the auditor will provide a draft copy of the bring down comfort letter in respect of certain change period financial information selected by the requesting parties;
 - (f) the responsibilities of the entity, including those set out in paragraph 14(d) of this ASRS;
 - (g) the responsibilities of the requesting parties, including those set out in paragraph 14(e) of this ASRS; and
 - (h) other such terms or conditions that the auditor considers appropriate in the circumstances. (Ref: Para A11-A12)
17. If the requesting parties and/or the entity do not agree to sign the engagement letter, the auditor shall consider the implications for the engagement. (Ref: Para. A13)

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Draft Comfort Letter

18. If agreed to in the terms of engagement as set out in paragraph 16 of this ASRS, the auditor shall provide a draft of the expected form and content of the comfort letter to the requesting parties in a timely manner. (Ref: Para. A14)
19. The draft comfort letter shall be clearly identified as a draft to avoid giving the impression that the procedures described therein have been performed. To the extent possible, the draft comfort letter shall deal with all matters to be covered in the final comfort letter and use exactly the same terms as those to be used in the final comfort letter, subject to the understanding that the comments in the final comfort letter cannot be determined until the procedures underlying it have been performed. It shall clearly describe that the procedures to be performed by the auditor are those specified by the requesting parties, and that the requesting parties above are responsible for the sufficiency of the procedures for their purposes. (Ref: Para. A15-A16)
20. If the auditor is unable to have a discussion with the requesting parties about the auditor's planned procedures at the time of preparing the draft comfort letter, the auditor shall describe in the draft comfort letter those procedures specified in the draft underwriting agreement that the auditor is willing to perform. If no draft underwriting agreement is available, the auditor is unable to provide a draft comfort letter. (Ref: Para. A17)
21. In competitive bidding situations in which legal counsel for the requesting parties acts as the requesting parties' representative prior to opening and acceptance of the bid, the auditor shall carry out the discussions and other communications required by this ASRS with the legal counsel until the requesting parties are selected. In such circumstances, the auditor shall not agree to provide a comfort letter addressed to the entity, legal counsel, or a non-specific addressee such as any or all underwriters to be selected. If the auditor agrees to provide a draft comfort letter, the draft comfort letter shall include a legend describing the comfort letter's purpose and limitations. (Ref: Para. A18)

Changes in the Terms of Providing the Comfort Letter

22. The auditor shall not agree to a change in the scope of services agreed to in the engagement letter where there is no reasonable justification for doing so. (Ref: Para. A19)

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23. If the terms of providing the comfort letter are to be changed, the terms shall be documented in writing and co-signed by the auditor, the entity and requesting parties. (Ref: Para. A20)
24. If the terms of providing the comfort letter are unable to be agreed by the auditor, the auditor shall withdraw from the engagement and not agree to issue the comfort letter.

Performing the Engagement (Ref: Para. A21)

25. The auditor shall perform the requesting parties' specified procedures as agreed in the engagement letter.

Commenting in a Comfort Letter on Financial Information Other Than Audited or Reviewed Financial Statements

General

26. If the auditor is required to comment in a comfort letter on financial information other than audited financial statements, the auditor shall: (Ref: Para. A22)
- (a) describe the procedures specified by the requesting parties to be performed by the auditor;
 - (b) describe the applicable criteria specified by the requesting parties; and
 - (c) state that the procedures performed with respect to interim periods may not disclose matters of significance regarding particular financial information about which the auditor's statement is requested.
27. The auditor shall not in the comfort letter:
- (a) make any statements that the auditor has applied procedures that the auditor determined to be necessary or sufficient for the requesting parties' purposes;
 - (b) use terms of uncertain meaning (such as general review, limited review, reconcile, check, or test) in describing the work performed unless the procedures encompassed by these terms are described in the comfort letter; or

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- (c) make a statement that nothing else has come to the auditor's attention that would be of interest to the requesting parties as a result of carrying out the specified procedures. (Ref: Para. A24)
28. When an auditor's report on audited financial statements or a review report on reviewed financial statements in the offering document includes a modified conclusion, the auditor shall consider the effect on the comfort letter regarding subsequent interim financial information included in the offering document or regarding an absence of specified subsequent changes.

Knowledge of Internal Control (Ref: Para. A25)

29. The auditor shall obtain an understanding of an entity's internal control over financial reporting for both year-end and interim periods when commenting in a comfort letter on:
- (a) unaudited interim financial information; and/or
 - (b) subsequent changes in selected financial statement items.

Unaudited Interim Financial Information

30. The auditor may only provide limited assurance on interim financial information included in the offering document if the auditor has, as agreed under a separate engagement, conducted a review in accordance with the applicable Australian Standard on Review Engagements. If included in the agreed terms of the comfort letter engagement, the auditor may attach the review report to the comfort letter unless the review report is already included in the offering document, or is otherwise publicly available. (Ref: Para. A26)
31. Where unaudited interim financial information has been included in the offering document with respect to a period that has not been audited or reviewed, the auditor is not able to express an auditor's statement on the interim financial information. The auditor may agree to perform agreed-upon procedures on the interim financial information, provided it:
- (a) has been prepared using an applicable financial reporting framework that is consistent with that used in the most recent audited or reviewed financial statements; and

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- (b) it is disclosed as being unaudited or unreviewed by the auditor.

Pro Forma Financial Information

- 32. If the auditor is required to comment on pro forma financial information, the auditor shall not provide such a comment unless the auditor has an appropriate level of knowledge of the accounting and financial reporting practices of the entity. (Ref: Para. A27)
- 33. The auditor shall not provide an auditor's statement in a comfort letter: (Ref: Para. A28)
 - (a) the application of pro forma adjustments to historical financial information amounts;
 - (b) the compilation of the pro forma financial information;
 - (c) whether the pro forma financial information complies in all material respects with the applicable financial reporting framework; or
 - (d) its compliance with the responsible parties' chosen applicable financial reporting framework;

unless the auditor has obtained the required knowledge described in paragraph 29 of this ASRS and has performed, in respect of the financial statements to which the pro forma adjustments are applied, either an audit in accordance with applicable Australian Auditing Standards, or a review in accordance with the applicable Standard on Review Engagements. If the auditor has not performed such an audit or review, the auditor is able to only report factual findings based on specified procedures performed in accordance with ASRS 4400.

- 34. If the auditor is requested by the requesting parties to provide limited assurance on pro forma financial information included in the offering document, the auditor shall only agree to such a request if:
 - (a) this is conducted as a separate engagement to the comfort letter engagement; and
 - (b) is performed in accordance with Australian Standards on Review Engagements applicable to the review of interim financial information.

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If this is not the case, the auditor is able to only report factual findings based on specified procedures performed in accordance with ASRS 4400.

Financial Forecasts (Ref: Para. A29)

35. The auditor shall not perform agreed upon procedures or express an auditor's statement on a financial forecast.

Tables, Statistics, and Other Financial Information

36. The auditor may be requested to perform agreed-upon procedures and report factual findings on tables, statistics and other financial information. If the auditor is requested to comment in a comfort letter on tables, statistics and other financial information appearing in the offering document, the auditor shall comment only on information that: (Ref: Para. A30)
- (a) is expressed in dollars (or percentages or ratios derived from such dollar amounts) and that has been obtained from accounting records that are subject to internal control over financial reporting; or
 - (b) has been derived directly from such accounting records by analysis or computation.
37. The auditor shall not comment in a comfort letter:
- (a) on quantitative information that has been obtained from accounting records unless the information is subject to the same controls over financial reporting as the dollar amounts; or
 - (b) on tables, statistics, and other financial information relating to an unaudited period unless the auditor has:
 - (i) performed an audit of the entity's financial statements for a period including or immediately prior to the unaudited period or completed an audit for a later period, or
 - (ii) otherwise obtained knowledge of the entity's internal control over financial reporting for that period.

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38. The auditor shall not use the term “presents fairly” in comments concerning tables, statistics, and other financial information and shall not comment on: (Ref: Para. A31)
- (a) information subject to legal interpretation, such as beneficial share ownership; or
 - (b) matter(s) merely because the auditor is capable of reading, counting, measuring, or performing other functions that might be applicable.
39. The auditor’s factual findings from the performance of the specified agreed-upon procedures in the comfort letter concerning tables, statistics, and other financial information included in the offering document shall include: (Ref: Para. A32)
- (a) a clear identification of the specific information commented on;
 - (b) a description of the procedures performed; and
 - (c) the findings, expressed in terms of agreement between items compared.
40. With respect to the acceptability of methods of allocation used in deriving the figures commented on, the auditor shall comment only to the extent to which such allocation is made in, or can be derived directly by analysis or computation from, the entity’s accounting records. Such comments, if made, shall make clear that:
- (a) such allocations may be, to a substantial extent, arbitrary;
 - (b) the method of allocation used is not the only acceptable method; and
 - (c) other acceptable methods of allocation might produce significantly different results.
41. The comfort letter shall state that the auditor makes no representations regarding:
- (a) any matter of legal interpretation;
 - (b) the completeness or adequacy of disclosure; and

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- (c) the adequacy of the procedures followed, and that such procedures would not necessarily disclose material misstatements or omissions in the financial information to which the comments relate.

Change Period Financial Information

- 42. If agreed to under the terms of the engagement, the auditor shall perform the specified procedures requested by the requesting parties on financial information during the change period, in order to provide an auditor's statement on such financial information in the comfort letter. (Ref: Para. A33)
- 43. The auditor shall base the auditor's statement regarding subsequent changes in specified financial information solely on the specified procedures performed with respect to the change period, as determined by the requesting parties. (Ref: Para. A34)
- 44. The auditor shall provide an auditor's statement in the comfort letter regarding subsequent changes in specified financial information only as of a date less than the date specified in paragraph 10(e) of this ASRS. (Ref: Para. A35)
- 45. When the requesting parties request an auditor's statement regarding subsequent changes in specified financial information as of a date after the date specified in paragraph 10(e) of this ASRS, the auditor is not permitted to include an auditor's statement in the comfort letter and is restricted to reporting on the specified procedures performed and factual findings obtained.⁵
- 46. In commenting on subsequent changes, the auditor shall not characterise subsequent changes using ambiguous terms, such as referring to the change as adverse. (Ref: Para. A36)
- 47. The auditor shall comment only on the occurrence of subsequent changes in specified financial information that are not disclosed in the offering document. Accordingly, the auditor shall include the statement "except for changes, increases, or decreases that the offering document discloses have occurred or may occur" in the comfort letter when it has come to the auditor's attention that a change, increase, or decrease has occurred during the change period, and the amount of such change, increase, or decrease is disclosed in the offering document. This statement need not be included in the letter when no changes, increases, or decreases in the specified

⁵ See ASRS 4400, Appendix 4, for an example of a Factual Findings Report.

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financial information are already disclosed in the offering document. (Ref: Para. A36)

48. The auditor shall comment in the comfort letter if there has been any change in the application of the applicable financial reporting framework to the change period financial information such that they are not prepared on a basis consistent with the latest audited or reviewed financial statements. (Ref: Para. A37)
49. The auditor shall identify in the comfort letter the dates as of which, and periods for which, data at the cut-off date and data for the change period are to be compared. (Ref: Para. A38-A40)
50. If the requesting parties request the use of an earlier change period or change periods other than that defined in paragraph 10(e) of this ASRS, the auditor shall explain to the requesting parties the implications of using an earlier date. If the requesting parties, nonetheless, request the use of a change period or periods other than that defined in paragraph 10(e) of this ASRS, the auditor is permitted to use the change period or periods requested. (Ref: Para. A41)
51. If the auditor is unable to perform the exact nature, timing or extent of the requesting parties' specified procedures, the auditor shall discuss this as soon as possible with the requesting parties. If alternative procedures are requested by the requesting parties, then these new procedures shall be agreed between the auditor and the requesting parties, and documented in writing and co-signed by the auditor and the requesting parties.
52. If the terms of engagement include the auditor preparing a bring down comfort letter, to be dated at or shortly before the closing date of the offering, the auditor shall carry out the specified procedures set out in the engagement letter and make enquiries of the entity as of the cut-off date for the bring down comfort letter. The subsequent bring down comfort letter shall relate only to financial information in the offering document as most recently amended.

Entity Written Representations (Ref: Para. A42-A43)

53. The auditor shall request a written representation letter from the entity's Chief Executive Officer and Chief Financial Officer⁶ that includes the following representations, at a minimum:

⁶ Or equivalent roles, responsibilities, or positions within the entity.

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- (a) a reaffirmation of the representations previously provided in the most recent audit or review of the entity's financial statements;
 - (b) that all information requested by the auditor has been provided, including the final version of the offering document;
 - (c) that all matters relevant to the comfort letter have been advised to the auditor;
 - (d) an acceptance of responsibility for the offering document, including that it complies with the applicable legal requirements of all jurisdiction(s) in which it is issued;
 - (e) that all financial information has:
 - (i) been derived from the same accounting records and subject to the same internal control as the most recent audited or reviewed financial statements;
 - (ii) a reasonable basis of preparation, and is prepared in accordance with the specified applicable financial reporting framework; and
 - (iii) been prepared on a basis consistent with that of the most recent audited or reviewed financial statements; or if not, that appropriate disclosure of any changes has been made to the financial information in the offering document; and
 - (f) such other representations that the auditor determines are appropriate in the engagement circumstances.
54. The date of the representation letter shall be either the cut-off date of the offering document, or as near as practicable to, but not after, the date of the comfort letter.
55. If the required representations are not received from the entity, the auditor shall not issue the comfort letter.

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Completing the Engagement

56. The auditor shall determine if all the requesting parties' specified procedures have been completed in order to prepare the comfort letter.
57. The auditor shall request a copy of the signed underwriting agreement from the requesting parties.
58. The auditor shall agree to provide a written comfort letter to the requesting parties only if they have received a signed copy of the underwriting agreement.

Subsequently Discovered Matters (Ref: Para. A44)

59. The auditor shall inform the requesting parties as soon as possible, when the auditor has discovered matters not included in the offering document, that require inclusion in the final comfort letter that were not included in the draft comfort letter already provided to the requesting parties. If the entity decides not to amend the offering document, the auditor shall inform the entity that the matters will be included in the final comfort letter, and shall recommend that the requesting parties be promptly informed.

Format and Contents of the Comfort Letter

60. The comfort letter shall include, at a minimum, each of the following elements: (Ref: Para. A49)
 - (a) addressees, being only the entity and the requesting parties; (Ref: Para. A45)
 - (b) the date of issue shall be the date the auditor signs the comfort letter; (Ref: Para. A46-A48)
 - (c) the offering document to which the comfort letter relates is identified;
 - (d) the purpose of the comfort letter and that it has been prepared in accordance with this ASRS issued by the Auditing and Assurance Standards Board and the agreed engagement terms set out in the engagement letter;
 - (e) the specified procedures requested by the requesting parties which have been performed by the auditor in order to report

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factual findings, and that no assurance is expressed on that financial information;

- (f) a statement that the auditor is not responsible for the sufficiency of the specified procedures performed;
- (g) the findings of the specified procedures;
- (h) if applicable, for the change period financial information:
 - (i) what the change period financial information is;
 - (ii) the cut-off period for the change period financial information, as well as the dates and periods of comparison for the cut-off period financial information; (Ref: Para. A46)
 - (iii) the procedures performed on such financial information and that they did not cover the period from the cut-off date to the date of the comfort letter; (Ref: Para. A46) and
 - (iv) the auditor's statement as to whether, based on the procedures described, nothing has come to the auditor's attention that there are any changes, increases or decreases in the change period financial information, as compared to the corresponding period:
 - ◇ if there are such changes, increases or decreases, that are actual or contemplated, disclosed in the offering document, the auditor's statement states that "except for changes, increases or decreases disclosed in the offering document as having occurred or which may occur"; or
 - ◇ if the changes are not disclosed in the offering document, the auditor's statement shall include the amount of the changes, increases or decreases in the selected financial information during the change period; and

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- (v) that no audit or review was performed on the change period pro forma or other financial information, and accordingly no assurance is expressed on that financial information;
 - (i) confirmation that the use of the comfort letter is restricted to its addressees and is prepared for the sole purpose of assisting the requesting parties in their due diligence defence of the offering document, and consequently is to be used only in connection with the stated purpose of the comfort letter. Consequently the auditor is not responsible for any reliance that may be placed on the comfort letter for any other purpose;
 - (j) the auditor's firm name; and
 - (k) the auditor's address.
61. If the auditor is required by law or regulation to use a specific layout and/or wording in the comfort letter, the auditor shall refer to compliance with this ASRS only if the comfort letter includes, at a minimum, each of the elements identified in paragraph 60 of this ASRS.
62. When issuing a comfort letter in accordance with this ASRS, the auditor shall not circumvent the intent of this ASRS by issuing any additional letters or reports to requesting parties in connection with the offering document in which the auditor comments on items for which commenting is otherwise precluded by this ASRS.
63. The auditor shall not refer to in, or attach to, the comfort letter any restricted use reports.
64. If the auditor does not receive the requested due diligence defence representation from the requesting parties as described in paragraph 14(f) of this ASRS, the auditor may amend the comfort letter to include, at a minimum, the following statements:
- (a) "It should be understood that we have no responsibility for establishing (and did not establish) the scope and nature of the procedures enumerated in the preceding paragraphs; rather, the procedures enumerated therein are those that the requesting party asked us to perform. Accordingly, we make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes

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of the procedures enumerated in the preceding paragraphs; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages previously listed as set forth in the [offering document]. Further, we have addressed ourselves solely to the foregoing data and make no representations regarding the adequacy of disclosures or whether any material facts have been omitted. This comfort letter relates only to the financial statement items previously specified and does not extend to any financial statement of the company as a whole.”

- (b) “The foregoing procedures do not constitute an audit conducted in accordance with Australian Auditing Standards. Had we performed additional procedures or had we conducted an audit or a review of the company’s [give dates of any interim financial statements] consolidated financial statements in accordance with Australian Auditing Standards, other matters might have come to our attention that would have been reported to you.”
- (c) “These procedures should not be taken to replace any additional enquiries or procedures that you would or should undertake in your consideration of the proposed offering.”
- (d) “This letter is intended solely for your information and to assist you in your enquiries in connection with the offering of the securities covered by the offering document. It is not to be used, circulated, quoted, or otherwise referred to for any other purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be lodged with or referred to in whole or in part in the offering document or any other document, except that reference may be made to it in any list of closing documents pertaining to the offering of the securities covered by the offering document.”
- (e) “We have no responsibility to update this letter for events and circumstances occurring after [cut-off date].”

Preparing a Bring Down Comfort Letter

- 65. If the agreed terms of engagement require the auditor to issue a letter subsequent to the comfort letter in order to report procedures performed for a new change period, the auditor shall perform the

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new change period procedures including reviewing appropriate updated management representations specified by the requesting parties. (Ref: Para. A50)

66. The auditor shall provide a written bring down comfort letter to the requesting parties containing a clear expression of the factual findings of the auditor's procedures on the change period financial information. (Ref: Para A50)

Basic Elements of the Bring Down Comfort Letter (Ref: Para. A51)

67. The bring down comfort letter shall include, at a minimum, each of the following elements:
- (a) date issued;
 - (b) addressees;
 - (c) a reference to the previously issued comfort letter and the purpose of the updated comfort letter;
 - (d) a statement as to whether the auditor reaffirms the statements previously included in the comfort letter;
 - (e) details of the updated procedures specified by the requesting parties and performed by the auditor, including when they were performed, and the change period subsequent to the date of the comfort letter to which the procedures relate; and
 - (f) a statement that the bring down comfort letter is restricted to the addressees and is to be used only in connection with the stated purpose of the letter.

Documentation

68. The auditor shall document on a timely basis:
- (a) the nature, timing and extent of the procedures performed as specified by the requesting parties and the factual findings obtained, as identified in the comfort letter; and
 - (b) evidence that the procedures were carried out in accordance with this ASRS and the agreed terms of engagement.

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Application and Other Explanatory Material

Scope of this Standard on Related Services (Ref: Para. 3)

- A1. The requesting parties ordinarily request the auditor of the entity to perform certain procedures as a part of their due diligence investigation on selected financial information disclosed in the entity's offering document and report results by way of issuing a comfort letter. The requesting parties' request is ordinarily made through the entity, and the auditor's agreement to undertake the engagement is both with the requesting parties and the entity. Comfort letters are not included in the offering document. It is ordinarily a condition of the underwriting agreement between the entity and the underwriters who are the requesting parties that an auditor's comfort letter is provided in respect of the financial information. The comfort letter is ordinarily issued upon pricing of the offering or when a debt program is established provided the engagement letter has been signed. The comfort letter is ordinarily updated on closing, settlement date or when the requesting parties request multiple updates through the issue of a bring down comfort letter. The issuance of the comfort letter is restricted to those parties that have agreed to the procedures to be performed by the auditor since others, unaware of the reasons for the procedures, may misinterpret the results.

Types of Offerings Covered by this ASRS (Ref: Para. 6)

- A2. While the types of offerings covered by this ASRS are specifically aimed at international offerings, this ASRS also applies if the auditor is requested to issue a comfort letter in relation to domestic debt or equity offerings, notwithstanding that in Australia, auditors ordinarily are not requested to issue comfort letters for such domestic offerings.

Engagement Acceptance

Preconditions for Providing a Comfort Letter

- A3. If the requesting parties refuse to meet, the auditor may consider the implications in determining whether to accept the engagement.
(Ref: Para. 14(c))
- A4. The signed representation may be provided by way of a specific letter or agreed to be included by the auditor in the engagement

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letter terms which is to be co-signed by the requesting parties with the entity. (Ref: Para. 14(f))

- A5. A legal counsel's letter indicating that a requesting party may be deemed to be an underwriter or has a liability substantially equivalent to that of an underwriter under the applicable law would ordinarily not meet this requirement. (Ref: Para. 14(f)(i))
- A6. What is substantially consistent may vary from situation to situation and may not be the same as that done in a registered offering of the same securities for the same issuer. Whether the procedures being, or to be, followed will be substantially consistent is determined by the requesting parties on a case-by-case basis. (Ref: Para. 14(f)(ii))

Agreeing on the Terms of Engagement

- A7. The responsible party of the entity who signs the engagement letter ordinarily is the ultimate responsible party of the entity, or an authorised representative/officer thereof, recognising that, in certain circumstances, the directors of the entity (being those charged with governance) may not be appointed by the time of agreeing the terms of the engagement or the entity may not be in existence when the engagement commences (for example, a new company structure). In such cases, the auditor considers whether to update and re-issue the engagement letter terms for a change of responsible party of the entity. All requesting parties requested to co-sign the engagement letter with the responsible party of the entity should be addressees in the engagement letter. (Ref: Para. 16(b))
- A8. A factor in considering whether to accept the engagement is whether the period between the cut-off date and the date of the comfort letter provides sufficient time to allow the auditor to perform the procedures and prepare the comfort letter. (Ref: Para. 16(c))
- A9. The underwriting agreement ordinarily outlines either the expected form or content of the comfort letter (including the specific matters to be addressed in the comfort letter), or that such form and content are to be determined by the requesting parties separately. At the time of engagement acceptance, the agreement may be in draft form, as it is not ordinarily finalised and signed by the entity and the requesting parties until closer to the offering document's date of issue. The auditor ordinarily receives a copy of the underwriting agreement. As the auditor is not a party to the underwriting agreement, the procedures the auditor will perform need to be agreed

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between the entity, requesting parties and auditor, and documented in the engagement letter. (Ref: Para 16(e)(ii))

- A10. When financial information in an offering document has not been audited in accordance with Australian Auditing Standards and, accordingly, is not covered by an auditor's opinion, the nature of the comments that the auditor can make in the comfort letter with respect to that financial information is limited. What constitutes a reasonable investigation of unaudited financial information sufficient to satisfy the requesting parties' purposes can vary from jurisdiction to jurisdiction. Consequently, only the requesting party can determine what is sufficient for the requesting party's purposes. (Ref: Para. 16(e)(ii))
- A11. The assistance that the auditor can provide by way of a comfort letter is subject to limitations. One limitation is that auditors can properly comment in their professional capacity only on matters to which their professional expertise is relevant. Another limitation is that procedures contemplated in a comfort letter, which do not constitute an audit of financial statements, do not provide the auditor with a basis for expressing an opinion. Such procedures may bring to the auditor's attention significant matters affecting the financial information, but they do not provide any assurance that the auditor will become aware of any or all significant matters that would be disclosed in an audit. Accordingly, a risk exists that the auditor may have provided assurance on the absence of conditions or matters that may prove to have existed. (Ref: Para. 16(h))
- A12. Appendix 1 provides an illustrative engagement letter. (Ref: Para. 16(h))
- A13. Acknowledgement by the entity and the requesting parties in writing of their acceptance of the engagement letter provides evidence that the entity and the requesting parties accept their engagement responsibilities and establishes a basis of common understanding of the responsibility of each party. It also avoids misunderstandings of the agreed terms. If the requesting parties do not agree to sign the engagement letter, the auditor may: (Ref: Para: 17)
- (a) not agree to issue the comfort letter; or
 - (b) agree to report only factual findings on the financial information in accordance with ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

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Draft Comfort Letter

- A14. By providing a draft comfort letter early in the process, the auditor has the opportunity to clearly show the requesting parties what they may expect to receive from the auditor. The requesting parties therefore also have the opportunity to discuss further with the auditor the procedures and to request any additional procedures. If the additional procedures relate to matters within the auditor's professional competence, and the auditor agrees to perform them, a revised draft may be prepared. (Ref: Para. 18)
- A15. Acceptance by the requesting parties of the draft comfort letter (and subsequently by acceptance of the comfort letter in final form) is an indication to the auditor that the requesting parties consider the procedures described to be sufficient for the requesting parties' purposes. Clearly describing the procedures to be followed by the auditor in the comfort letter avoids misunderstanding about the basis on which the auditor's comments have been made and assists the requesting parties in deciding whether the procedures performed are sufficient for the requesting parties' purposes. (Ref: Para.19)
- A16. The following is an example of a paragraph that may be placed in the draft letter for identification and explanation of its purposes and limitations: (Ref: Para. 19)
- “This draft is provided solely for the purpose of indicating the form of letter that we would expect to be able to furnish [*names of the requesting party*] in response to their request, the matters expected to be covered in the letter, and the nature of the procedures that we would expect to carry out with respect to such matters. Based on our discussions with [*name of requesting party*], it is our understanding that the procedures outlined in this draft letter are those they wish us to follow. Unless [*names of the requesting party*] informs us otherwise, we shall assume that there are no additional procedures they wish us to follow. The text of the letter itself will depend, of course, on the results of the procedures, which we would not expect to complete until shortly before the letter is given and in no event before the cut-off date indicated therein.” (Ref: Para. 19)
- A17. If the auditor has not had any discussions with the requesting parties about the auditor's planned procedures, the second sentence in this paragraph would be revised as follows: “In the absence of any discussions with [*names of the requesting party*], we have set out in this draft letter those procedures referred to in the draft underwriting

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agreement (of which we have been furnished a copy) that we are willing to follow”. (Ref: Para. 20)

- A18. Situations may exist in which more than one auditor is involved in the audit of the financial statements of a business and in which the reports of more than one auditor appear in the offering document. This is ordinarily the case when the entity is involved in a business combination. Other examples may include the audit of significant divisions, branches, or subsidiaries by component auditors. Comfort letters are requested occasionally from more than one auditor, for example, in connection with an offering document to be used in the subsequent sale of shares issued in recently effected mergers, and from predecessor auditors. In such circumstances, it is the entity’s responsibility, at the earliest practicable date, to inform any other auditors who may be involved about any letter that may be requested of them and arrange for them to receive a draft of the underwriting agreement so that they may make arrangements at an early date for the preparation of a draft of their letter and for the performance of their procedures. The entity or requesting parties are also responsible for arranging for a copy of the comfort letters of component auditors in draft and final form to be provided to the auditor of the group financial statements. (Ref: Para. 21)

Changes in the Terms of Providing the Comfort Letter

- A19. Any change in agreed terms proposed by the entity during the engagement needs to be appropriately justified to the auditor’s satisfaction before the auditor agrees to such a change. Examples of when requests from the entity may be received include a change to reflect a change in circumstances or a misunderstanding of the nature of the services to be provided. The auditor considers the implications of the proposed change on the conduct and reporting of the engagement, as well as any evidence that was obtained prior to the change. A change in circumstances that affects the entity’s requirements, or a misunderstanding concerning the nature of the auditor’s Comfort letter originally agreed, may be considered a reasonable basis for requesting a change in the engagement terms. (Ref: Para. 22)
- A20. It is important that all changes agreed to by the entity, the requesting parties and the auditor be documented and approved in writing to ensure there is no misunderstanding of what has been agreed. (Ref: Para. 23)

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Performing the Engagement

- A21. Comfort letter engagements ordinarily require the following procedures be performed by the auditor: (Ref: Para. 25)
- (a) procedures specified by the requesting parties on unaudited interim financial information; and
 - (b) procedures specified by the requesting parties in respect of selected financial information during the change period.

Commenting in a Comfort Letter on Financial Information Other than Audited or Reviewed Financial Statements

General

- A22. Comments included in the letter will often be related to: (Ref: Para. 26)
- (a) Unaudited interim financial information.
 - (b) Pro forma financial information.
 - (c) Tables, statistics and other financial information.
 - (d) Subsequent changes in other specified financial statement items.
- A23. The procedures performed with respect to interim periods may not disclose subsequent changes in the specified financial statement items, inconsistencies in the application of the applicable financial reporting framework, instances of non-compliance as to form with applicable legal or regulatory requirements, or other matters about which an auditor's statement is requested.
- A24. The auditor is not allowed to make a general statement that nothing else has come to the auditor's attention that would be of interest to the requesting parties because there is no way for the auditor to anticipate other matters that would be of interest to the requesting parties. (Ref: Para. 27(c))

Knowledge of Internal Control (Ref: Para. 29)

- A25. The auditor should have obtained a sufficient understanding of an entity's internal control over financial reporting for both year-end

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and interim periods through performing an audit of the entity's financial statements for one or more financial reporting periods.

Unaudited Interim Financial Information (Ref: Para. 30)

- A26. The applicable financial reporting framework used for the review of interim financial information is ordinarily represented by Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

Pro Forma Financial Information

- A27. An appropriate level of knowledge of the accounting and financial reporting practices of the entity may be obtained by the auditor auditing, or reviewing, in accordance with Australian Auditing Standards, historical financial statements of the entity (or, in the case of a business combination, a significant constituent part of the combined entity) for the most recent year end or interim period for which the pro forma financial information is presented. (Ref: Para. 32)
- A28. Pro forma financial information is ordinarily included in the offering document when the entity is involved in a business combination. (Ref: Para. 33)

Financial Forecast (Ref: Para. 35)

- A29. A financial forecast prepared by the entity may or may not be included in the offering document.

Tables, Statistics, and Other Financial Information

- A30. Other financial information appearing in the offering document does not include financial information that is covered by the auditor's report on the financial statements. (Ref: Para. 36)
- A31. As the term "presents fairly" when used by auditors ordinarily relates to presentations of financial statements, the use of the term in commenting on other types of information may be misleading and should not be used in the comfort letter. (Ref: Para. 38)
- A32. Options for describing the procedures performed and the findings obtained include: (Ref: Para. 39)
- (a) describing them individually for each item of specific information on which comment is made;

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- (b) grouping or summarising some or all of the descriptions, provided:
 - (i) the procedures and findings are adequately described;
 - (ii) the applicability of the descriptions to items in the offering document is clear; and
 - (iii) the descriptions do not imply that the auditor assumes responsibility for the adequacy of the procedures;
- (c) presenting a matrix listing the financial information and common procedures employed and indicating the procedures applied to the specific items; and
- (d) identifying procedures performed with specified symbols and identifying items to which those procedures have been applied directly on a copy of the offering document, which is attached to the comfort letter.

Change Period Financial Information

- A33. Comments regarding subsequent changes typically relate to whether, during the change period, there have been any: (Ref: Para. 42)
- (a) changes in share capital;
 - (b) increases in long-term debt;
 - (c) decreases in other specified financial statement items;
 - (c) decreases in net current assets or equity and equity attributable to the company;
 - (d) decreases in net sales or the total per-share amounts of income from continuing operations and of net income or net income attributable to the company; or
 - (e) changes in the basis of preparation of the financial information (e.g. different accounting policies adopted).

- A34. Procedures may include: (Ref: Para. 43)

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- (a) reading minutes during the change period and discussing with those charged with governance those meetings for which minutes have not been approved;
- (b) reading the unaudited or unreviewed financial information for the change period; or
- (c) making enquiries of entity relating to the whole of the change period and obtaining appropriate written representations from the entity to support the answers to the enquiries;

to enable the auditor to state whether anything has come to the auditor's attention that a change, increase, or decrease has occurred during the change period.

A35. In determining whether to accept the comfort letter engagement, the auditor ordinarily considers whether the length of the cut-off period proposed by the requesting parties for the change period financial information is appropriate, having regard to factors such as:
(Ref: Para. 44)

- (a) the timeframe proposed to be covered;
- (b) the time that has elapsed since the issue date of the latest audit or review report on the entity's financial statements;
- (c) when the next audit or review report is expected to be issued; and
- (d) whether the basis of preparation is consistent with that of the most recent audited or reviewed financial statements.

Publicly listed entities ordinarily have a change period up to six months from the date of the latest audited or reviewed financial statements whilst privately incorporated entities have a change period up to twelve months. If the auditor is not comfortable with the change period, it should be discussed with the requesting parties. If the auditor does not accept the proposed change period, the auditor is not able to provide an auditor's statement in respect of the change period financial information and consequently, only reports factual findings, based on agreed-upon procedures.

A36. In commenting on subsequent changes, the auditor may use terms such as 'change', 'increase', or 'decrease'. Terms such as 'adverse'

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are not clearly understood and may cause the comments on subsequent changes to be ambiguous. (Ref: Para. 46-47)

- A37. Changes in the basis of preparation may be due to changes in the selection or application of accounting policies applied to the change period financial information. (Ref: Para. 48)
- A38. The comparison for the change period relates to the entire period and not to portions of that period. A decrease during one part of the period may be offset by an equal or larger increase in another part of the period; however, because no decrease for the period as a whole existed, the comfort letter would not report the decrease occurring during one part of the period. (Ref: Para. 49)
- A39. Dates as of which, and periods for which, data at the cut-off date and data for the change period are to be compared are to be agreed in the engagement letter. For balance sheet items, the comparison date is normally that of the latest balance sheet included in the offering document (that is, immediately prior to the beginning of the change period). For income statement items, the comparison period or periods might be one or more of the following: (Ref: Para. 49)
- (a) the corresponding period of the preceding year;
 - (b) a period of corresponding length immediately preceding the change period;
 - (c) a proportionate part of the preceding fiscal year; or
 - (d) any other period of corresponding length chosen by the requesting parties.
- A40. The purpose of identifying the date and period used for comparison is to avoid misunderstandings about the matters being compared, and so that the requesting parties can determine whether the comparison period is suitable for the requesting parties' purposes. (Ref: Para. 49)
- A41. Requesting parties occasionally request that the change period begins immediately after the date of the latest audited balance sheet (which is, ordinarily also the closing date of the latest audited statement of comprehensive income) in the offering document, even though the offering document includes a more recent unaudited balance sheet and statement of income. The use of the earlier date may defeat the requesting parties' purpose because it is possible that

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an increase in one of the items referred to in paragraph A33 occurring between the dates of the latest audited and unaudited balance sheets included in the offering document might more than offset a decrease occurring after the later date. A similar situation might arise in the comparison of income statement items. In these circumstances, the decrease occurring after the date of the latest unaudited interim financial statements included in the offering document would not be reported in the comfort letter. (Ref: Para. 50)

Entity Written Representations (Ref: Para. 53-55)

- A42. The auditor ordinarily requests to receive a written representation letter from the entity at the completion of the engagement.⁷ The auditor ordinarily provides the entity with a specific list of matters requiring the entity's representations. Such matters may already be contained in documentation reviewed by the auditor, including minutes of meetings, and written acceptance of the engagement letter, and therefore the auditor only needs to request the inclusion of such matters in the written representation letter if the auditor considers it appropriate in the engagement circumstances. If the entity does not provide a written representation letter, or refuses to provide it, the auditor needs to discuss the implications of this with the entity being that the auditor is unable to provide a comfort letter.
- A43. Appendix 2 provides an illustrative representation letter.

Subsequently Discovered Matters (Ref: Para. 59)

- A44. The auditor ordinarily requests a copy of the final offering document (and any document incorporated by reference in it) and reads it to identify any possible issues with providing the comfort letter to the entity. Subsequently discovered matters may include matters identified from reviewing the final offering document and changes in specified items that are the subject of the comfort letter, but which are not already disclosed in the offering document. If the matters are already disclosed in the offering document, there is ordinarily no need to include them in the comfort letter, except by way of reference to where they are disclosed in the offering document.

⁷ The concepts and discussions on obtaining written representations relevant to an audit engagement are contained in Auditing Standard ASA 580 *Written Representations*, and may be helpful in determining the form and content of written representations applicable to a comfort letter engagement.

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Format and Contents of the Comfort Letter

Addressees (Ref: Para. 60(a))

- A45. An example of an appropriate form of address for this purpose is “[Firm name, as Representative of the Several Underwriters]. Copies of a comfort letter addressed in accordance with the requirements in paragraph 60(a) may be provided to the auditor of the group financial statements in a comfort letter engagement related to a component included in the group financial statements.

Date of the Comfort Letter (Ref: Para. 60(b))

- A46. The comfort letter is dated when issued which is ordinarily on, or shortly after:
- (a) the entity’s representation letter is received;
 - (b) when the underwriting agreement(s) is/are signed;
 - (c) when the signed engagement letter is received; and
 - (d) before finalisation of the offering document.
- A47. The engagement letter ordinarily specifies the date, often referred to as the cut-off date, to which certain procedures described in the letter are to relate, ordinarily between three and five working days before the date of the comfort letter. A factor in considering whether to accept the engagement is whether the period between the cut-off date and the date of the letter provides sufficient time to allow the auditor to perform the procedures and prepare the letter.
- A48. Comments included in an earlier comfort letter that relate to information in the offering document as most recently amended may be incorporated by reference in a subsequent bring down comfort letter.
- A49. Appendix 3 provides an illustrative comfort letter. (Ref: Para. 60)

Preparing a Bring Down Comfort Letter

- A50. The requesting parties may request the auditor to issue an updated comfort letter, ordinarily referred to as a bring down comfort letter, at the offering pricing, closing of the offering document and/or

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subsequent dates depending on the offering circumstances.
(Ref: Para. 65-66)

A51. Appendix 4 provides an illustrative bring down comfort letter.
(Ref: Para. 67)

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Conformity with International Standards on Related Services

This Standard on Related Services has been made for Australian public interest purposes and accordingly there is no equivalent International Standard on Related Services (ISRS) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Compliance with this Standard on Related Services does not affect compliance with the ISRSs.

Appendix 1

(Ref: Para. A12)

EXAMPLE ENGAGEMENT LETTER

The following illustrative letter includes example terms of engagement that can be tailored for specific engagement circumstances.

[The Directors]

[Entity Limited]

[Address]

The Lead Manager and Dealers

[Addressee]

[Date]

Dear Sirs/Madam

PROPOSED [insert type of offering] ISSUE BY [Issuer Name] (“the Issuer”)

Introduction

1. This Engagement Letter sets out the scope and limitations of the work to be performed by [Firm name] (“we” or “us”) as auditor of [entity] in connection with the proposed issue of [insert details] (“the Issue”) which will involve the preparation by the Issuer of, and for which the Issuer will be solely responsible, an Offering Document [in accordance with the [Listing Rules of the [relevant] Stock Exchange or other listing authority]. This letter is written in the context of the respective roles of the directors of the Issuer, [the Lead Manager] (“the Lead Manager”), the other Managers (as defined in Paragraph 2 below) and ourselves. Any work contemplated by this arrangement which is performed before the date of this letter will also be governed by the terms and conditions of this letter.

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Addressees

2. This Engagement Letter is addressed to the directors of the Issuer, the Lead Manager and to each of the managers who have agreed, or prior to the issue of our Comfort Letter will agree, to participate in the proposed Issue and who have, or prior to the issue of our Comfort Letter will have, validly authorised the Lead Manager to sign this engagement letter on their behalf (together being the “Addressees”). All managers’ legal names are set out in Appendix 1 to this Engagement Letter.
3. By signing and accepting the terms of this Engagement Letter, the Lead Manager confirms that it will ensure that it receives prima facie authority from each Manager identified in Appendix 1 authorising it to enter into this engagement letter on the relevant Manager’s behalf.⁸
4. Up to the date of the relevant Comfort Letter, a Manager may be added to Appendix 1 by the Issuer or by the Lead Manager by written notice to us and the Issuer or the Lead Manager. A Manager may also be deleted from Appendix 1 where the Manager withdraws from the Issue and/or advises the Lead Manager that it does not wish to receive the benefit of the Comfort Letter or for this Engagement Letter to be signed on its behalf or where the Lead Manager does not receive authority to sign this engagement letter on behalf of the relevant Manager. The revised managers shall then, together with the Lead Manager, be referred to in this engagement letter as “the Managers”.

Comfort Letter

5. The Lead Manager confirms that, in connection with the proposed Issue, it is aware of [state applicable law, regulation, standard or industry guidance] relating to due diligence issued by the [state name of body] from time to time, which will be followed by it in connection with the proposed issue.
6. Our Comfort Letter will be provided to the addressees of this letter solely in the context of the due diligence procedures that you undertake pursuant to the guidance referred to in Paragraph 5 above for the purpose of seeking to establish any due diligence defence the Addressees are entitled to advance in any claim or proceeding in connection with the contents of the Offering Document.

⁸ The auditor should not accept any limitations on the level of scope of the Lead Manager’s authority.

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Accordingly our Comfort Letter will be addressed to you solely for that purpose and may not be relied on by you for any other purpose. Our engagement will be conducted with the objective of reporting factual findings resulting from each procedure requested by the Addressees. The procedures performed will not constitute an audit or review engagement, and accordingly no assurance will be provided.

7. Any Comfort Letter issued pursuant to this Engagement Letter will not have been provided in accordance with the professional standards of [insert jurisdiction] and accordingly should not be relied upon in connection with any obligations or responsibilities that you may have under any legislation, regulations and/or rule of law in [insert jurisdiction] and, in the event of any such use in [insert jurisdiction], we accept no responsibility in this regard.
8. Our work and findings shall not in any way constitute advice or recommendations (and we accept no liability in relation to any advice or recommendations) regarding any commercial decisions associated with the Issue, including, in particular, but without limitation, any which may be taken by the Managers (or any person connected to the Managers or any one of them) in the capacity of investor or in providing investment advice to their clients.
9. Our Comfort Letter will be provided solely for your private information and should not be used for any purpose other than as set out in Paragraph 6 above. Our Comfort Letter may not be referred to in any other document (except that reference may be made to its existence in any contract or other communication between the Issuer and/or the Managers, and/or ourselves), nor made available to any other party (except that a copy may be included in the [describe the documents] prepared for the Issuer and the Managers).
10. Nothing in paragraphs 7 and 9 above shall prevent you from disclosing our Comfort Letter to your professional advisers or as may be required by law or regulation, and/or referring to and/or producing our Comfort Letter in court proceedings relating to the Issue or the Offering Document. Provided that you first obtain our prior written consent, you may disclose our Comfort Letter to third parties where to do so would reasonably be necessary in the interest of a resolution of a dispute with that third party relating to the Issue or the Offering Document.
11. Other than to those who have validly accepted this Engagement Letter, we will not accept any responsibility to any party to whom

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our Comfort Letter is shown or into whose hands it may come, and for those who have validly accepted, only then on the terms set out in this letter.

12. You may only rely on information and comments set out in our Comfort Letter on the basis of this Engagement Letter.

Work and procedures

13. Our work will be conducted in accordance with ASRS 4450 *Comfort Letter Engagements*, issued by the Australian Auditing and Assurance Standards Board and we will indicate so in the Comfort Letter. In other jurisdictions, standards and practice relevant to reporting accountants may be different and may not provide for reporting in the manner contemplated herein. Accordingly, the Comfort Letter should not be relied on as if it had been provided in accordance with the standards and practice of any professional body in any other jurisdiction.
14. We have not carried out an audit or review performed in accordance with Australian Auditing Standards or the Standard on Review Engagements respectively (“AUASB Standards”) of any financial information relating to the Issuer for any period subsequent to [date of last audited balance sheet]. The procedures we will use to perform the work set out in this Engagement letter will consequently not constitute an audit or review performed in accordance with AUASB Standards. Furthermore, they will not necessarily reveal matters of significance with respect to any material misstatement of the information referred to below.
15. The procedures that we will perform in accordance with this Engagement Letter and have been requested by the Lead Manager and will be recorded in the Comfort Letter itself. [If applicable, describe the nature of the procedures]. Accordingly, they will not constitute an audit or review performed in accordance with any Australian Auditing Standards or the Standard on Review Engagements and consequently, no audit opinion or review conclusion or other assurance will be expressed. The Addressees draw their own conclusions from the procedures and the Comfort Letter. We will make no representation as to the adequacy of any disclosure or information in the Offering Document. Furthermore, the procedures we will perform are not designed, and are not likely to reveal fraud or matters of significance with respect to any material misstatement of the information referred to below. Our work will be carried out on the basis that information provided to us by the

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Addressees for the purposes of the procedures is reliable, accurate and complete. In no circumstances will we be responsible for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us.

16. The procedures that we have been requested by the Addressees to conduct have been discussed between the Issuer, the Lead Manager and us and will be recorded in the Comfort Letter itself. We will undertake those procedures agreed with the Addressees as set out in the final draft of the Comfort Letter, and in doing so, we will address ourselves solely to the data provided to us by the Addressees for the purpose of performing those procedures. The Addressees have sole responsibility for determining the adequacy or otherwise of the procedures that we agree to perform. We will only carry out those procedures expressly provided for in the Comfort Letter. Accordingly, we make no representations as to the sufficiency for your purposes of such procedures and, therefore, our responsibility shall be limited to performing the work agreed upon in this engagement letter and/or recorded in the Comfort Letter with due skill, care and attention. If we were to perform additional procedures or if we were to conduct an audit or review of the financial statements of the Issuer in accordance with applicable AUASB Standards, other matters might come to our attention which we would report to you. The procedures to be performed by us should not be taken to supplant any additional enquiries or procedures that may be appropriate in the performance of your role in connection with the proposed offering.
17. In relation to the contents of the Offering Document, we will address ourselves solely to such financial information in the Offering Document as is identified in the Comfort Letter and we will make no representations as to the adequacy of disclosure in the Offering Document or as to whether any material facts have been omitted by the Issuer.
18. Any opinions expressed on financial information outside the context of this Engagement letter were, or are, expressed solely in the context of the specific terms and conditions governing their preparation. In particular, the terms of this Engagement Letter and any action pursuant to it shall be additional to and shall not detract from or change in any way any legal rights which any party to this letter may otherwise have acquired, whether in contract or in tort, in connection with our audits of the financial statements of the Issuer.

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19. Except as may be expressly included in the Comfort Letter, we do not accept any responsibility for any other reports or letters beyond any responsibility that we owed to those to whom our reports or letters were addressed at the date of their issue. Our procedures will be performed on the basis that:
- (a) the lead manager acknowledges and understands:
 - (i) their responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by us;
 - (ii) their responsibility for determining where the factual findings provided by us, in combination with other information obtained, provide a reasonable basis for any conclusions which the Addressees with to draw on the subject matter;
 - (iii) their responsibility to provide us with:
 - ◇ access to all information of which the Addressees are aware is necessary for the performance of the agreed-upon procedures; and
 - ◇ such additional information that we may request for the purpose of the engagement;
 - (b) the entity acknowledges and understands its responsibility to provide unrestricted access to persons within the entity from whom we require co-operation in order to perform the agreed-upon procedures; and
 - (c) the addressees acknowledge and understand that:
 - (i) the procedures we will perform are solely to assist the Addressees in their due diligence defence. Our Comfort Letter is not to be used for any other purposes and is solely for the Addressees information; and
 - (ii) the procedures that we will perform will not constitute an audit or review performed in

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accordance with AUASB Standards, and consequently, no assurance will be provided.

Contents of the Comfort Letter

20. We would be grateful if you would review the draft Comfort Letter at [Appendix 3] [that we expect to be able to provide you with] and advise us of any amendments you propose to the procedures as soon as possible, so that we can consider the proposed amendments and, if agreed, provide you with a revised draft for your further consideration and approval.
21. Once an advanced draft of the Offering Document is available and you have identified, and we have agreed, the procedures to be performed, we will provide you with a further revised draft of the Comfort Letter for your approval of its scope prior to finalisation. In so far as any such draft or oral discussions are inconsistent with the subsequent final Comfort Letter, it will be deemed to be superseded by such final Comfort Letter.
22. For the avoidance of doubt, we will not comment on, or otherwise give comfort in relation to, the prospects or trading position or, save as expressly stated in the Comfort Letter, comment on or provide any opinion or other conclusion as to the current overall financial position of the Issuer.

Meetings

23. It [will be] [has been] necessary for us to receive copies of the draft Offering Document as it [is] [was] produced and it [may be] [has been] necessary for us to attend meetings (including, but not limited to, meetings with the Issuer, and its directors and/or employees, and the Lead Manager and its employees or agents) at which the Offering Document [is] [has been] discussed and drafted or at which other related matters [are] [have been] discussed. We [shall answer] [have answered] queries raised at such meetings on an informal basis but you should neither act nor refrain from acting on the basis of such informal answers unless and until they are confirmed in writing by us, whether in the final Comfort Letter or otherwise. In the absence of such written confirmation we shall have no liability to you in contract or in tort (including negligence) for our answers.
24. Unless otherwise specifically agreed between the parties, we are authorised by the Issuer to speak to the Managers and other professional advisers advising on the proposed Issue. In connection

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with our work pursuant to this Engagement Letter, we may release to the Managers and such other professional advisers any information relating to the Issuer, whether confidential or not and obtained during the course of our work or otherwise and shall not be liable to the Issuer for any use subsequently made of that information.

Timetable

25. [We will endeavour to carry out our work in accordance with a timetable to be agreed between all parties that will satisfy the requirements of the Issue]. We [intend to provide] [are providing] you with our Comfort Letter on the date of the final Offering Document relating to the Issue and to provide you with an updated Comfort Letter or to reissue our Comfort Letter on the date of closing of the Offering Document.

Fees

26. Our fees will primarily reflect such factors as complexity, specialist input, urgency, inherent risks, the use of techniques, expertise and the time spent on performing the specified procedures. Our out of pocket expenses plus GST (if applicable) will be advised under separate cover and will be the sole responsibility of, and will be paid by, the Issuer.

Issue

27. We will discuss with you any difficulties we encounter with this engagement or with meeting the timetable as soon as any problems arise.

Applicable law and jurisdiction

28. Each Addressee and we covenant with the other not to bring any claim or proceeding of any nature in relation to this contract, Engagement Letter, in any jurisdiction other than [insert applicable State, Australia].

Other Terms and Conditions

29. The terms and conditions, which are attached as Appendix 2, also form part of this Engagement Letter. These terms and conditions shall apply, as indicated in such terms and conditions, to the Issuer except that Paragraphs [X] and [X] shall apply to all the Addressees

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of this Engagement Letter. In the event of any inconsistency between this Engagement Letter and such terms and conditions, the terms of this letter shall prevail as being the relevant terms and conditions.

30. [Insert any other terms and conditions that are applicable in the engagement circumstances].

Prohibition on Assignment

31. No party may assign any of its rights in relation to this arrangement letter without the prior written consent of the other parties.

Counterparts

32. This Engagement Letter may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and as if the signatures on the counterparts were on a single copy of this Engagement Letter.

Entire Agreement

33. This Engagement Letter and the Appendices to it constitute the entire agreement between us and, except as provided in this Engagement Letter, no change in the terms of our agreement will be effective unless agreed in writing and signed by all parties to this Engagement Letter or their respective legal counsel.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangement for our Comfort Letter engagement including the specific procedures which we have agreed will be performed and our respective responsibilities.

Yours faithfully

Firm name

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Acknowledgement and Acceptance

We acknowledge receipt of this letter and agree with the terms of your engagement set out therein:

..... Director Date

..... Name

for and on behalf of Issuer

..... Title Date

..... Name

for and on behalf of Lead Manager

..... Title Date

..... Name

Encl.

Appendix 1: Names of all Managers involved in the Offering Document

Appendix 2: [Firm name] Terms and Conditions of Engagement

Appendix 3: Draft Comfort Letter

Appendix 2

(Ref: Para. A43)

EXAMPLE ENTITY REPRESENTATION LETTER

The following illustrative letter includes an example representation letter provided by the entity in respect of an auditor's comfort letter, when not otherwise included within the engagement letter that can be tailored for specific engagement circumstances.

[Date]

[Name of Firm Name]

[Address]

Dear Sirs/Madam

Issue of [X] ("the Issue") by [type of issue by Issuer] ("Issuer")

In connection with the above mentioned issue, you have been asked to provide to us and to the [Managers/Dealers] under the terms of your engagement letter dated [Date], an auditor's Comfort Letter concerning certain financial information of the Entity included in the Offering Document dated [Date] and changes in the financial position of the Issuer since [Date].

We reaffirm to you all the statements made to you in the letter dated [date of last management representation letter obtained for the audited financial statements] and issued to you in connection with your audit of our financial statements for the years ended [Date] and [Date]. Nothing has come to our attention which causes us to believe that the audited financial statements of the entity for the years ended [Date] and [Date] did not give a true and fair view, in all material respects, of the entity's state of affairs at the respective balance dates and of the entity's profits for the years ended on those dates. Nothing has come to our attention that would cause us to believe that there is a need to restate the audited consolidated financial statements for the years ended [Date] and [Date] due to material misstatements.

We are responsible for the information contained in the Offering Document and the information contained in the ["Schedule of Changes Prepared by Management" (the "Schedule")] attached at Appendix 1 to this letter.

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We confirm that to the best of our knowledge and belief, and having made appropriate enquiries of directors and officials of the entity, the following representations:

1. The facts as stated in your Comfort Letter are accurate in all material respects, any opinions attributable to us are fair and reasonable, we have made available to you all significant information relevant to your Comfort Letter of which we have knowledge and we are not aware of any matters relevant to your engagement letter dated [Date] which have been excluded.
2. The Issuer has with reasonable care and due diligence performed appropriate procedures to ensure that the information contained in the Offering Document is in accordance with the facts and does not omit anything likely to affect the importance of the information provided.
3. The Issuer has taken appropriate legal and other advice in order to ensure that the Offering Document complies with the relevant requirements of the [insert applicable law].
4. The Issuer has, for the period since [Date], had in place a system to ensure compliance with the continuous disclosure requirements of Australian law, and we are not aware of any instances of non-compliance with those requirements during that period.
5. Any events or decisions of the Board of Directors up to the Cut-Off Date [Date] that could impact the figures included in the Schedule were accounted for in the management accounts. These include the items within paragraph [98(b) to (e)] of AASB 101 *Presentation of Financial Statements* issued by the [Australian Accounting Standards Board] being: [insert details of items].
6. All decisions of the executive management or directors of the Entity which might materially affect the carrying value or classification of the entity's assets and liabilities has been advised to you. No events have occurred up to [Date] (the "Cut-off date") other than already disclosed in the Offering Document or as set out in the Issuer's [Date] audited financial statements that would require additional disclosure to you.
7. All approved minutes of meetings of the shareholders, Board of Directors and [identify any other bodies], containing all substantive actions taken at such meetings, agenda items and board papers for

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all board meetings held since [Date] to the Cut-off date have been made available for inspection by you.

8. The unaudited monthly management accounts for [Date] (the “[Month, this year] Management Accounts”) of the entity have been prepared and presented in conformity with [Australian Accounting Standards] applied on a basis which is substantially consistent⁹ with that of the published audited financial statements for the year ended [Date], [except that it is incomplete in that it omits [insert details].] No management accounts or financial statements exist for the period subsequent to [Date].
9. The management accounts properly deal with all of the following matters identified by you from the minutes referred to in Paragraph 7 above [insert details].
10. [If applicable, the Board has considered the matters identified by [Firm name] in the course of their procedures on changes since [last audited balance sheet date] and confirmed that they had been properly reflected in the management accounts for the [insert number] months ended [Date]].
11. Provisions which are believed to be adequate have been made in the entity’s accounting records as reflected in the [Month, this year] Management Accounts for significant litigation and claims against the entity other than where the likelihood of loss is considered less than likely. The Issuer is not aware of any material litigation that is both probable and capable of reliable estimation which is not currently recorded as a liability in the [Date] audited financial statements or the [Month, this year] Management Accounts.
12. The information in the Schedule attached to this letter (other than information as of the Cut-off date, which agrees to the accounting records of the Entity) agrees to the [Month, this year] Management Accounts, [Month, prior year] Management Accounts, or the [Date] audited financial statements.
13. That, having advised you that no financial statements or management accounts as of any date subsequent or for any period subsequent to [Date] are available, other than as disclosed in the Schedule, there was no:

⁹ In circumstances when management accounts are not prepared on a substantially consistent basis, additional representations should be included to state what differences exist, such as year-end adjustments for impairment, fair value of certain financial instruments, or equity accounting adjustments for investments.

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- (a) decrease in [revenue from continuing operations, consolidated net profit] for the [X] month(s) period ended [Date], compared with the [corresponding period in the preceding year];
 - (b) change in the [number of issued ordinary shares, decrease in net current assets, consolidated total assets or shareholders' equity], at [Date], compared with the corresponding figures in the [Date] audited financial statements; or
 - (c) increase in [total borrowings or total liabilities] at [Date], compared with the corresponding figures in the [Date] audited financial statements.
14. There has been no change in the [number of issued ordinary shares] or increase in [total borrowings] at the Cut-off date as compared with the respective amounts shown in the [Date] audited financial statements, except in all instances for changes, increases or decreases that the Offering Document (including the financial statements incorporated by reference in it) discloses have occurred or may occur, and except as are disclosed in the Schedule.
15. We confirm that, to the best of our knowledge and belief, in the period between [Date] and the date of this letter, there has been no event reported in the minutes or decisions of the Board documented in the minutes that could be given accounting recognition in accordance with [paragraph 98(b) to (e) of AASB 101 *Presentation of Financial Statements*] in the next published audited financial statements of the Issuer following the date of this letter.
16. The Board is not aware of any matters to which attention should be drawn in the statement on page [X] of [[proof [] of] the Offering Document that there has been no material adverse change in the financial position or prospects of the Issuer since the date of its last published financial statements.
17. The [describe document] which has been used as a basis for the [describe information in the document] has been [prepared/derived] from the Group's accounting records.
18. [The statement of capitalisation for the Issuer as at [Date] contained on page [X] of [proof [] of] the Offering Document dated [Date] related to the Issue ("the Offering Document") has been properly prepared by our management after due and careful consideration and

Appendix 3

(Ref: Para. A49)

EXAMPLE COMFORT LETTER

The following illustrative letter represents an example comfort letter that can be tailored for specific engagement circumstances.

Private and Confidential

The Lead Manager and Dealers

[Addressee]

[Date]

Dear Sirs/Madam

PROPOSED [insert type of offering] ISSUE BY [insert issuer name]
(“the Issuer”)

We attach as Appendix 1, a copy of the Offering Document [insert name] and dated [Date] which we have initialled for identification purposes. We attach as Appendix 2, a copy of the Engagement Letter dated [insert date] (the “Engagement Letter”), the terms of which have been agreed between us, are deemed to have been incorporated in this Comfort Letter and govern the matters addressed by this Comfort Letter and its use.

This letter is addressed to the Directors of the Issuer, to the Lead Manager (“the Lead Manager”) and to each of the [other managers whose names are set out above] [the Managers identified in Appendix 2 of the Engagement Letter] who have agreed to participate in the proposed issue of [the Securities] (“the Issue”) provided they have validly authorised the Lead Manager to accept the Engagement Letter on their behalf. Together with the Lead Manager, they are referred to as “the Managers”.

This letter is provided solely for the private information of its addressees in the context of the due diligence procedures that you are undertaking, or intend to undertake, in connection with the contents of the Offering Document solely for the purpose of seeking to establish a due diligence defence in such context that you may wish to advance in any claim or

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proceeding in connection with the contents of the Offering Document on the basis set out in the Engagement Letter.

Accordingly, this letter is addressed to you solely for that purpose and may not be relied on by you or used for any other purpose, nor be referred to in any other document (except that reference may be made to its existence in any contract or other communication between the Issuer and/or the Managers and/or ourselves), nor made available to any other party (except that a copy may be included in [specify document] prepared for the Issuer and the Managers).

We will not accept any responsibility to any other party to whom our letter is shown, or into whose hands it may come (including any Manager who has not validly authorised the Lead Manager to accept the Engagement Letter).

We have performed the engagement in accordance with Australian Standard on Related Services ASRS 4450 *Comfort Letter Engagements*, issued by the Australian Auditing and Assurance Standards Board.

In accordance with the terms of the Engagement Letter referred to above, we set out below the procedures we have carried out and our factual findings from the performance of those procedures.

Pro forma Financial Information

At your request, we have:

1. Read the unaudited pro forma condensed consolidated balance sheets as of [Date] and the unaudited pro forma condensed consolidated statements of income for the year ended [date], and the [insert number] month period ended [Date] included in the Offering Document.
2. Enquired of certain officials of the company who have responsibility for financial and accounting matters about:
 - (a) the basis of their determination of the pro forma adjustments; and
 - (b) whether the unaudited pro forma condensed consolidated financial information referred to in (a) has been prepared and presented on a basis consistent with the accounting policies adopted by the Issuer in preparing the latest audited or reviewed financial statements.

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The foregoing procedures are substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assumptions, the pro forma adjustments, and the application of those adjustments to historical financial information and accordingly, we do not express such an opinion. The foregoing procedures would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representation about the sufficiency of such procedures for your purpose.

Nothing came to our attention as a result of the procedures described above that caused us to believe that the unaudited pro forma condensed consolidated financial statements referred to in 2 (a) above have not been properly compiled on the pro forma basis described in the notes. Had we performed additional procedures, or had we made an examination of the pro forma condensed consolidated financial statements, other matters might have come to our attention that would have been reported to you.

Financial Information

On pages [insert pages], the Offering Document sets out certain financial information for the [insert number] years [and insert period] ended [Date] of the Issuer. We have read this information and have compared it with that shown in the audited financial statements [and the unaudited published interim financial statements for the [insert number] months ended [Date]] of the Issuer. We confirm that this financial information has been accurately extracted from the audited financial statements for the relevant years [or, as the case may be, the published reviewed interim financial statements for such period]. [We did not conduct a review of such interim financial statements in accordance with the applicable Standard on Review Engagements issued by the Auditing and Assurance Standards Board].

Other Financial Information

For the purposes of this letter, we have also read the items that you have identified as indicated on the attached copy of the Offering Document and have performed the following procedures, which were applied as indicated [by the symbols explained below]:¹⁰

- [Symbol] [Compared the specific dollar amount or percentage to a dollar amount or percentage included in or derived from the audited financial statements of the Issuer at [Date] and found them to be in agreement [after giving effect to aggregation or rounding, if applicable].

¹⁰ The method of identification of the procedures should be agreed between the parties.

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- [Symbol] [Compared the [specific dollar amount or percentage to a dollar amount or percentage] included in or derived from the [unaudited financial statements] which the Issuer has represented was [prepared/derived] from the accounting records and found the [dollar amount or percentage] to be in agreement, after giving effect to aggregation or rounding, if applicable. We have not traced the information to the accounting records themselves. [We make no comment as to the appropriateness of the Issuer's method of derivation used in the unaudited schedules.] [We make no comment with respect to reasons given for changes between periods or any other matter.]
- [Symbol] [Recomputed the [percentages/ratios etc.] and found them to be correctly calculated.]¹¹ [We make no comment as to the appropriateness of the Issuer's method of derivation used in the calculation the [percentages/ratios etc.] [We make no comment with respect to reasons given for changes between periods or any other matter.]

[If applicable - Capitalisation and Indebtedness Table

1. On page [X] of the Offering Document there is a statement of the capitalisation and indebtedness of the Issuer. We have read the capitalisation and indebtedness statement and we confirm that the shareholders' funds, borrowings and [contingent liabilities] at [insert date of last previously published financial statements] included in that statement have been accurately extracted from the [audited financial statements/reviewed interim results] of the Issuer as at [insert date of last audited financial statements/reviewed interim results], [in relation to which we did not conduct a review in accordance with the applicable Standard on Review Engagements issued by the Auditing and Assurance Standards Board].]

Changes in Financial Position

Agreed-Upon Procedures

For the purpose of this letter, we have performed the following procedures:

¹¹ These procedures are illustrative only, and should be amended to reflect the specified procedures requested by the Lead Manager and agreed by the auditor as set out in the Engagement Letter.

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2. We have:
- (a) [read the minutes of meetings of [the Board or Directors, the Board Audit Committee, other board committees where relevant] of the Issuer held since [insert the date of its last published year-end financial statements] as set out in minute books at [insert date] (the “cut-off date”) ([together with/excluding] the papers provided to the board for that meeting), which the directors have advised us are complete; and
 - (b) read the [insert date of latest] unaudited management accounts for the [insert number of months] months ended [insert date] (the “[Month, this year] management accounts”) (which the directors have advised us are the most recent management accounts available) and the corresponding unaudited management accounts from the previous year (the “[Month, last year] management accounts”).
3. Our objective in reading the documents referred to in Paragraph (2) (a) and (b) above was to identify those matters which, in our view, might, prima facie, be expected to impact the figures and ratios set out in Paragraph (6) below.
4. In the case of the minutes referred to in Paragraph (2) (a) above, our objective was also to identify such matters in those minutes, which would on their face, without further enquiry, require accounting recognition in accordance with [items (b) to (e) inclusive of paragraph 98 of AASB 101 *Presentation of Financial Statements*]¹² [issued by the Australian Accounting Standards Board] in the next published financial statements of the Issuer following the date of this letter (being matters that will be disclosed under Paragraph (8) (a) below).
5. We have made enquiries of [give name and positions of directors, managers and other staff of the Issuer with responsibility for financial and accounting matters to whom enquiries were addressed] (the “Persons Responsible for Financial and Accounting Matters”) as to whether:
- (a) those matters identified by us in the course of the work undertaken pursuant to Paragraph (4) above have been

¹² Or other applicable professional standards if those financial statements are not prepared in accordance with Australian Accounting Standards.

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reflected in the [month, this year] management accounts upon which the figures and ratios referred to in Paragraph (8) below are based; and

- (b) the [Month, this year] management accounts have been prepared and presented on a basis consistent with the accounting policies normally adopted by the Issuer and applied in preparing the [insert date of latest] audited financial statements.
6. We have compared the amounts shown in Appendix 3 prepared by management of the Issuer, (the “Schedule”), relating to [specify items e.g. revenue, profits before tax, net interest expense, depreciation of fixed assets, share capital, long-term debt, net current assets, total current assets and total current liabilities] to the [month, this year] management accounts, [month, last year] management accounts or [insert date of latest] audited financial statements as appropriate and found them to be in agreement. [We have recomputed the ratios set out in the schedule on the bases set out therein and found them to be correctly calculated.]
7. The procedures described above do not constitute an audit or review performed in accordance with AUASB Standards. Nor do they provide any assurance that the [month, this year] management accounts have been prepared on a basis consistent with the [month, last year] management accounts, that such management accounts have been prepared in a reliable manner nor that either have been prepared on a basis consistent with the [insert date of latest] audited financial statements. Consequently, our procedures would not necessarily reveal matters of significance with respect to the comments made in the following paragraphs and we make no representations as to the sufficiency for your purposes of any such procedures.
8. Solely on the basis of the foregoing procedures, we note and draw to your attention:
- (a) [Insert findings in relation to the matters referred to in Paragraph (4) above which are relevant to the findings in Paragraph (5) above;]
 - (b) [Insert changes, if any, identified in the basis of preparing or presenting the accounts reviewed or, if there are none, state this; and]

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- (c) [Insert matters revealed by the minutes of the Issuer from which it is evident without further enquiry that the events reported or decisions of the Board will be given accounting recognition in accordance with [items (b) to (e) inclusive of paragraph 98 of AASB 101 *Presentation of Financial Statements*], issued by the [Australian Accounting Standards Board] in the next published financial statements of the Issuer following the date of this letter or, if there are none, state this.]

Auditor's Statement

9. [Except for the matter(s) detailed in Paragraph (5) above and except in all circumstances for increases or decreases that the Offering Document discloses have occurred or may occur], nothing came to our attention as a result of the foregoing procedures that caused us to believe that:
- (a) at [insert date of latest management accounts] there were any decreases in the [specify items e.g. share capital, net current assets, total current assets] or increase in [specify items e.g. long-term debt, current liabilities] of the Issuer compared with the corresponding figures in the [insert date of latest] audited financial statements; and
- (b) in the period from [insert date of first day after end of last audited financial statements] to [date of latest management accounts] there was any decrease in [specify items e.g. revenue, profit before tax] or increase in [specify items e.g. interest expense, costs of goods sold], compared to the corresponding period in the preceding year as shown in the [month, last year] management accounts.

Agreed-Upon Procedures

10. Since the Directors have advised us that no financial statements have been prepared up to any date subsequent to [insert date of latest management accounts], the procedures carried out by us with respect to changes in financial statement items after [insert date of latest management accounts] have of necessity been even more limited than those carried out for the period up to that date. Up to the cut-off date, we have made enquiries of the persons responsible for financial and accounting matters identified in Paragraph (2) above as to:

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- (a) whether there has been any decrease in [specify items e.g. share capital, net current assets, net assets [same items as in Paragraph (5)]] or increase in [specify items e.g. long term debt [same items as in Paragraph (5)]] at the cut-off date as compared with the amounts shown in the [insert date of latest] audited financial statements of the Issuer; and
- (b) whether for the period from [insert date of first day after end of last audited financial statements] up to the cut-off date there have been any decreases in [specify items e.g. revenue, profit before tax [same items as in Paragraph (5) above]] as compared with the corresponding period in the preceding year.

Auditor's Statement

- 11. The persons responsible for financial and accounting matters identified in Paragraph (2) above confirmed that [except for the matters set out in Paragraph (10) above and except for [insert changes communicated by persons responsible for financial and accounting matters]] they were not aware of any such increase in [specify items] or decreases in any of the other items in Paragraph (10) (a) or (b) above. On the basis of the responses to these enquiries and our reading of the minutes as described in Paragraph (4) above, nothing has come to our attention which causes us to believe that [except for the matters set out in Paragraph (10) (a) above,] there has been any such increase or decrease.

General

- 12. The procedures described above do not constitute an audit or review performed in accordance with AUASB Standards and, as such, no assurance is expressed. Had we performed additional procedures, or conducted an audit or a review in accordance with AUASB Standards, other matters may have come to our attention that would have been reported to you.
- 13. The procedures described above do not provide any assurance that the amounts set out in paragraph 8 (b) above have been prepared on a basis consistent with the [Date] audited financial statements of the Issuer. Consequently, our procedures would not necessarily reveal matters of significance with respect to those matters.
- 14. The Addressees had sole responsibility for determining the adequacy or otherwise of the procedures we agreed to perform for the purpose

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Encl.

Appendix 1: Offering Document of [Issuer Name]

Appendix 2: Engagement Letter

Appendix 3: Schedule prepared by management of the Issuer

Appendix 4

(Ref: Para. A51)

EXAMPLE BRING DOWN COMFORT LETTER

The following illustrative bring down Comfort Letter issued subsequently to the original Comfort Letter, and can be tailored for specific engagement circumstances.

[The Directors]

[ABC Company Limited]

[Address]

The Lead Manager and Dealers

[Addressee]

[Date]

Dear Sirs/Madam

[Insert type of offering] ISSUE BY [insert issuer name] (“the Issuer”)

1. We attach as Appendix 1 a copy of the Engagement Letter dated [insert date] (the “Engagement Letter”), the terms of which have been agreed between us, are deemed to have been incorporated into this bring down letter and govern the matters addressed by this bring down letter and its use.
2. We refer to our letter of [Date] relating to the [Offering Document] dated [Date] of ABC Company Limited (the “Company”), attached as Appendix 2. We reaffirm as of the date hereof, and as though made on the date hereof, all statements made in that letter, except that for the purposes of this letter:
 - (a) The Offering Document to which this letter relates is as amended on [Effective Date].¹³

¹³ Effective date means the date on which the securities offering becomes effective.

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- (b) The reading of minutes described in [paragraph number] of that letter has been carried out through [the New Cut-Off date].
 - (c) The procedures and enquiries covered in [paragraph number] of that letter were carried out to [the new cut-off date] (our work did not extend to the period from [date of letter], inclusive).
 - (d) The period covered in [paragraph number] of that letter is changed to the period from [Date] officials of the Company having advised us that no such financial statements as of any date or for any period subsequent to [Date], were available.
 - (e) The references to [Date], in [paragraph number] of that letter are changed to [Date].
3. This letter is intended solely for the information of the directors of the Company (“the Directors”), the Lead Manager and to each of the Dealers who at the date of issue of the Comfort Letter had agreed to participate in the Issue and agreed in writing to be bound by the terms of the Engagement Letter (“the Dealers”) (the Issuer, the Lead manager, the Directors and the Dealers collectively being the “Addressees”).
4. This letter is provided solely for the purpose of any due diligence defence the Addressees are entitled to advance in any claim or proceedings in connection with the contents of the Offering Document referred to in the Engagement Letter, on the basis set out in the Engagement Letter. Accordingly, this letter is addressed to you for that purpose and may not be relied on by you or be used, circulated, quoted or otherwise referred to for any purpose, including but not limited to the purchase or sale of securities, nor is it to be filed with or referred to in whole or in part in the [Offering Document] or any other document, except that reference may be made to its existence in any contract or other communication between any of the Addressees or ourselves) nor made available to any other party except as permitted by the Engagement Letter.
5. Other than those who have signed the Engagement Letter, or have validly accepted or otherwise agreed with the terms of the Engagement Letter in accordance with paragraph [X] of the Engagement Letter, we will not accept any responsibility to any

