

CICA handbook – assurance revisions release no. 21 December 2004

ASSURANCE RECOMMENDATIONS

Auditor involvement with offering documents of public and private entities, Section 7110

Added references to new Examples A and B in paragraphs 7110.13 and 7110.14 respectively.

Added an Appendix containing Examples A and B.

Auditor assistance to underwriters and others, Section 7200 *

The Section has been reorganized to present general comments on auditor assistance (paragraphs 7200.001-.015), followed by more specific guidance with respect to comfort letters (paragraphs 7200.016-.096) and due diligence meetings (paragraphs 7200.097-.120).

* The new Recommendations in this Section apply to comfort letters to underwriters and others dated on or after March 1, 2005 and to due diligence meetings held on or after March 1, 2005.

Replaced former paragraphs 7200.01-.18 and 7200.29 with paragraphs 7200.001-.028, and former paragraphs 7200.88-.98 with paragraphs 7200.097-.120. Apart from the changes referred to below, former paragraphs 7200.19-.28 (paragraphs 7200.029-.038) and former paragraphs 7200.30-.87 (paragraphs 7200.039-.096) remain unchanged.

Amended paragraph 7200.043 (former paragraph 7200.34) to make it clear that the date of the comfort letter is ordinarily the same as the date of the prospectus.

Amended paragraphs 7200.048 and .094 (former paragraphs 7200.39 and .85) and related Examples A, B, E and L to refer to the auditor's independence rather than the auditor's objectivity.

Amended footnote 1 to Example A to conform to Sections 7110 and 7115.

Amended Examples D and G to conform to revised Section 7200.

Amended the introduction to Example N to refer to the communication the auditor is required to make to the underwriter before participating in a due diligence meeting, and to the statement the auditor is required to make if the auditor has not completed the required procedures at the time of the due diligence meeting.

Amended Question 15 in Example N to include two alternative forms of question the underwriter may ask.

Added new Examples O, P, Q, R and S.

The following Recommendations appeared in former paragraphs 7200.01-.18, 7200.29 and 7200.88-.98:

- .07 ♦ *An auditor who issues a comfort letter to underwriters, or takes part in a due diligence meeting with underwriters, should comment only in accordance with the Recommendations of this Section, and should not separately provide additional comfort (written or oral) which is not in accordance with these Recommendations. [JAN. 2001 *]*
- .09 ♦ *If the auditor has a reasonable basis to believe:*
 - (a) *that the offering document may contain a misrepresentation, or*
 - (b) *that the issuer's disclosure to the underwriter in a due diligence meeting may constitute a misrepresentation, the auditor should discuss the matter with the issuer and possibly the issuer's legal counsel, and should withhold his or her consent until the matter is satisfactorily resolved. [JAN. 2001 *]*
- .14 ♦ *Before issuing a comfort letter to a party that does not have a due diligence defence, the auditor should obtain a letter from the requesting party, stating that the requesting party:*
 - (a) *is knowledgeable with respect to a statutory due diligence investigation; and*
 - (b) *is or will be performing an investigation substantially similar to that which the party would carry out if it had a statutory due diligence defence.*

*In issuing such a letter, the auditor should follow the Recommendations of this Section relating to a comfort letter issued to an underwriter. An illustration of suitable wording for a representation letter from the requesting party and for the comfort letter issued by the auditor is provided in Examples D and E, respectively. The auditor would make appropriate modifications to the comfort letter depending on the circumstances surrounding the offering. [JAN. 2001 *]*
- .17 ♦ *Unless the auditor has received a satisfactory representation letter from a requesting party that does not have a due diligence defence, any letter issued by the auditor to the requesting party should avoid expressing either positive or negative assurance. However, the auditor may report procedures performed and results obtained, and in addition to the caveats contained in a normal comfort letter, should state:*

- (a) *that the auditor's procedures relate only to the specified financial statement items and other financial information on which the auditor's procedures were performed, and do not extend to any financial statement of the issuer taken as a whole;*
- (b) *that the procedures should not be taken to supplant any enquiries or procedures that the requesting party would otherwise undertake in considering the proposed offering; and*
- (c) *that the auditor has no responsibility to update the letter for events and circumstances occurring after a stated date.*

An illustration of the caveats that would be contained in such a letter is set out in items 5 to 9 inclusive of Example G. [JAN. 2001 *]

- .18 ♦ *When the auditor is engaged to issue a comfort letter, he or she should first establish the terms of the engagement with the entity's management, and reach agreement with management and the underwriter as to the subject matter of the comfort letter. The auditor may wish to confirm the terms of the engagement in a letter addressed to the issuer, and may choose to request written acknowledgement from the underwriter of the limitations agreed with the issuer. [JAN. 2001 *]*
- .29 ♦ *The auditor should not provide any form of assurance in the comfort letter relating to the offering document as a whole. [JAN. 2001 *]*
- .89 ♦ *Before attending a due diligence meeting with the underwriter, the auditor should establish an understanding and agreement with management of the issuer as to the terms of the engagement. Matters to be agreed on would usually include management's consent to the auditor's participation, management's undertaking to be represented in the meeting, and a waiver of normal confidentiality requirements, clearly specifying any limits on the auditor's freedom to speak openly to the underwriter. For example, it would be established whether or not the auditor is free to discuss any management letters or internal control letters that he or she has issued previously. The auditor may choose to confirm the terms of the engagement by letter, and request acknowledgement and acceptance by management. [JAN. 2001 *]*
- .93 ♦ *In a due diligence meeting, the auditor's comments should be confined to matters properly relating to his or her engagement, such as:*
 - (a) *the nature and duration of the engagement as auditor;*
 - (b) *the auditor's professional standing and experience;*
 - (c) *the scope of the audit and other professional work in connection with the offering document;*
 - (d) *the audit reports and other published reports issued by the auditor;*
 - (e) *the auditor's relationship with the issuer's management, directors and audit committee or equivalent;*
 - (f) *the auditor's ability to deliver reports, consents, comfort letters and any other letters or reports in connection with the offering of securities; and*
 - (g) *new developments in accounting, or pending accounting changes which have had or may have in future an effect on the entity's financial statements. [JAN. 2001 *]*
- .96 ♦ *In a due diligence meeting, the auditor should not provide any form of assurance relating to the offering document as a whole. [JAN. 2001 *]*
- .98 ♦ *If the auditor has a reasonable basis to believe that the issuer's disclosure to the underwriter in a due diligence meeting may constitute a misrepresentation, the auditor should discuss the matter with the issuer and possibly the issuer's legal counsel, and should withhold his or her consent until the matter is satisfactorily resolved. [JAN. 2001 *]*

Auditor association with annual reports, interim reports and other public documents, paragraph 7500.08(b)

Amended to replace the term "document" with the term "offering memorandum".

ASSURANCE AND RELATED SERVICES GUIDELINE

The auditor's consent and comfort in connection with securities offering documents (AuG-30)

Amended paragraph 3 to conform to revised Section 7200.