

## SPECIALIZED AREAS

### SECTION 7200

#### auditor assistance to underwriters and others

##### Basis for Conclusions

[CSQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements \(May 2022\)](#)  
[Commenting in a Comfort Letter on Pro Forma Financial Statements \(December 2011\)](#)

**Effective date.** The Recommendations in this Section, with the exception of paragraphs [7200.015A](#), [7200.078](#), [7200.087](#) and [7200.118](#), apply to comfort letters to underwriters and others dated on or after the first of the month noted beside each Recommendation and to due diligence meetings held on or after the first of the month noted beside each Recommendation. The Recommendations in paragraphs 7200.078, 7200.087 and 7200.118 apply to comfort letters to underwriters and others dated on or after June 30, 2017. The issuance of [CSQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#), gave rise to conforming amendments in paragraph 7200.015A. Paragraph 7200.015A is effective for engagements to provide assistance to underwriters and others beginning on or after December 15, 2022.

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## INTRODUCTION AND SCOPE

- .001 This Section provides guidance to an auditor who has been requested to issue a comfort letter or participate in a due diligence meeting relating to a securities offering.
- .002 Ordinarily, the issuer of securities agrees by the terms of the underwriting or agency agreement to retain its auditor to assist the underwriter or agent (generally referred to collectively in this Section as "the underwriter") and/or other requesting party 1 in conducting their investigation of the issuer's affairs. However, the term "auditor" is used in this Section to refer to any public accountant engaged by or on behalf of an issuer of securities to provide assistance to an underwriter or other requesting party, regardless of whether the public accountant is the auditor of the issuer. This Section does not deal with communications issued in connection with the purchase or sale of a business through securities transactions other than through a securities offering (for example, a report on a purchase investigation).
- .003 When an entity proposes to issue securities to the public, it commonly engages an underwriter to carry out the public offering. The underwriter assumes an obligation to ensure that adequate disclosure regarding the proposed issue is made to prospective investors. When the offering is made by a prospectus, the underwriter (as well as the issuer) is required by securities legislation to certify that, to the best of its knowledge, information and belief, the prospectus constitutes "full, true and plain disclosure" of all material facts relating to the securities being offered. 2 In the case of other offerings, the disclosure may be made by some form of offering memorandum, or in the case of an exempt offering may be made only by a term sheet and/or subscription agreement. The auditor can play an important role in this process when engaged by the issuer to provide assistance to the underwriter.
- .004 The practice of auditors issuing comfort letters to underwriters and directors, and attending due diligence meetings, arose as a result of the civil liability provisions of statutes of the various jurisdictions in Canada ("Securities Acts") governing the issuance of securities to the public by means of a prospectus. The Securities Acts establish a right of rescission on behalf of a purchaser of securities in a distribution to the public, or a right of action for damages against the issuer, its directors, the underwriters, and any other person or entity that

signed the prospectus, if the prospectus contains a misrepresentation. There are a number of defences against such liability. Among them, a director of the issuer, or an underwriter, is generally not held liable:

- (a) for a misrepresentation contained in a part of the prospectus made on the authority of an expert, such as the auditor's report on financial statements; or
- (b) with respect to other parts of the prospectus, unless the director or underwriter:
  - (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there was no misrepresentation; or
  - (ii) believed that there was a misrepresentation.

.005 In order to limit their liability, underwriters commonly develop the due diligence defence provided for in Securities Acts.<sup>3</sup> This defence may be developed by demonstrating that the underwriter conducted a "reasonable investigation" to provide reasonable grounds for believing that there had been no misrepresentation in the prospectus.

.006 Since it is not usually practical for underwriters to carry out such an investigation entirely by themselves, they frequently ask that the auditor provide them with comfort on information in certain areas outside of the audited financial statements. In conducting their "reasonable investigation" of the affairs of the issuer, the underwriters rely on this assistance to document what might be used as part of their possible due diligence defence. The assistance provided by the auditor may relate to various types of offering:<sup>4</sup>

- (a) an offering made under an offering document such as a prospectus;
- (b) another securities transaction covered by securities legislation (for example, a takeover bid or a share exchange effected by means of an information circular); or
- (c) an exempt offering (for example, a private placement, or an offering of government obligations).

Such assistance may take the form of a comfort letter and/or participation in a due diligence meeting. There is no legal requirement for an auditor to provide a comfort letter to an underwriter or participate in a due diligence meeting. The auditor may agree to provide assistance to an underwriter as a matter of contract with the issuer. In providing such assistance, the auditor may be assuming liabilities in addition to those arising from issuing an auditor's report.

.007 An auditor may agree to provide assistance to any party that has a due diligence defence under one of the Securities Acts: with respect to a prospectus, generally only the underwriter and the directors of the issuer; and with respect to a takeover bid, an issuer bid, a directors' circular, or a director's or officer's circular, generally any person or company that signs the circular. If there is any question whether the requesting party has a due diligence defence, the auditor may wish to seek legal advice.

.008 A party to a securities offering may request that the auditor be engaged to provide a comfort letter and/or attend a due diligence meeting relating to an offering of securities when the requesting party does not have a due diligence defence under the Securities Acts (for example, in a private placement or other exempt offering). The auditor may properly agree to assist the requesting party in such cases, provided that he or she has been engaged to perform the procedures required by this Section and has received a letter in satisfactory form from the requesting party. Such a letter would represent that the requesting party is knowledgeable with respect to a due diligence investigation, and is or will be performing an investigation substantially similar to that which it would carry out if the party had a statutory due diligence defence. The auditor requires this representation to ensure that the requesting party intends to rely on the auditor's report(s), and the auditor's comfort letter and/or participation in the due diligence meeting, only as a part of its "reasonable investigation", and not to substitute reliance on the auditor for that party's own due diligence assessment. If the requesting party does not furnish the auditor with a satisfactory representation letter, the auditor would not agree to issue a comfort letter or to participate in a due diligence meeting (see paragraphs [7200.022](#)-027 and [7200.100](#)-102).

.009 When engaged by the issuer to perform the procedures required by this Section, the auditor would normally be able to provide a comfort letter and/or agree to answer appropriate questions at a due diligence meeting. However, in providing comfort or formulating a response to questions asked by the underwriter, the auditor would bear in mind four principles underlying this Section:

- (a) Only the underwriter can determine what is sufficient for its investigation.
- (b) The underwriter will likely rely on any statement made by the auditor to add credibility to the subject matter of the statement; accordingly, any such statement needs to be appropriately supported.
- (c) In order to make a statement that would be appropriately supported, an auditor needs to possess adequate knowledge of the subject matter.
- (d) An auditor can properly make a statement only if there are suitable criteria against which to evaluate the subject matter.

.010 By providing a comfort letter or participating in a due diligence meeting, an auditor lends credibility to the information on which he or she comments. Hence it is important that the comments relate only to matters to which the auditor's professional competence is relevant.

.011 AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section [7150](#), sets forth the professional standards that are appropriate when an auditor is involved with an offering document and requires the auditor to perform certain procedures before consenting to the use of his or her audit report in connection with the offering. An auditor may provide a comfort letter to an underwriter, or participate in a due diligence meeting, when he or she has been engaged to perform the

procedures required under Section 7150. If the offering is an exempt offering, and no offering document is required or prepared, the auditor would not agree to provide a comfort letter to an underwriter, but may participate in a due diligence meeting when he or she has been engaged to perform the procedures required by paragraph [7200.107](#).

- .012 If, however, the auditor has not been engaged to perform such procedures, the auditor would not normally have appropriate current knowledge of the issuer and its financial condition to serve as a basis on which to issue a comfort letter or answer an underwriter's questions. Moreover, there would be a serious risk that the underwriter would misunderstand the basis (or lack thereof) on which the auditor is providing comfort or answering the underwriter's questions. In such circumstances, any advantage that might be gained by the auditor assisting the underwriter would be outweighed by the risk that the underwriter would place undue reliance on the auditor's involvement. Consequently, the auditor would advise the issuer, by letter, that without having been engaged to perform the procedures required under professional standards, he or she does not consent to the use of his or her report in connection with the proposed offering of securities and is unable to provide a comfort letter or to answer the underwriter's questions at a due diligence meeting. The letter would disclaim any responsibility with respect to the offering and would request the issuer to inform the underwriter of these facts. [Example O](#) illustrates such a letter.
- .013 *An auditor who issues a comfort letter to an underwriter, or takes part in a due diligence meeting with an underwriter, should comment only in accordance with the Recommendations of this Section, and should not separately provide additional comfort (written or oral) that is not in accordance with these Recommendations.* [MAR. 2005 4 ]
- .014 The auditor has neither the expertise nor the obligation to ensure that the underwriter's due diligence investigation is sufficient or complete. In any case, the auditor usually has very limited contact with the underwriter, and accordingly is not fully informed of all of the due diligence procedures that the underwriter has performed or is planning to perform. However, there may be circumstances in which the auditor has a reasonable basis to believe either that the offering document may contain a misrepresentation or that the issuer's disclosure to the underwriter in a due diligence meeting may constitute a misrepresentation. It is appropriate for the auditor to discuss such matters with the issuer in an attempt to satisfy his or her concerns. If this discussion fails to dispel the auditor's concerns, the auditor would pursue the matter with the issuer's legal counsel. Because legal counsel are expert in what constitutes adequate disclosure in law, the auditor will normally be able to rely on their decision as to whether further investigation needs to be undertaken or further disclosure made. The auditor may wish to receive written confirmation from legal counsel of their view of the matter. Unless and until the matter is resolved to the auditor's satisfaction, the auditor would refuse to be associated with the offering, and if applicable would withhold consent to the use of his or her report (see paragraphs [7200.021](#) and [7200.120](#)).

#### **Relationship with [CSQM 1](#) 5**

- .014A The system of quality management and policies or procedures are the responsibility of the firm. [CSQM 1](#) applies to firms in respect of engagements to provide auditor assistance to underwriters and others. 6 The provisions of this Section regarding quality management at the level of individual engagements are premised on the basis that the firm is subject to CSQM 1 or requirements that are at least as demanding.
- .014B [CSQM 1](#) deals with the firm's responsibilities to design, implement and operate a system of quality management for related services engagements, including engagements to provide auditor assistance to underwriters and others. 7 CSQM 1 also deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews. [CSQM 2](#) deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.
- .014C Under [CSQM 1](#), the objective of the firm is to design, implement and operate a system of quality management for engagements, including engagements to provide auditor assistance to underwriters and others, that provides the firm with reasonable assurance that:
- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
  - Comfort letters issued by the firm or engagement partners are appropriate in the circumstances. 8
- .014D The provisions of this Section regarding quality management at the engagement level are premised on the basis that quality management requirements adopted are at least as demanding as those of [CSQM 1](#) and impose obligations on the firm to achieve the objective of CSQM 1. Compliance with CSQM 1 requires, among other things, that the firm's system of quality management addresses the following eight components: 9
- The firm's risk assessment process;
  - Governance and leadership;
  - Relevant ethical requirements;
  - Acceptance and continuance of client relationships and specific engagements;
  - Engagement performance;

- (f) Resources;
  - (g) Information and communication; and
  - (h) The monitoring and remediation process.
- .014E Within the context of the firm's system of quality management, engagement teams have a responsibility to implement the firm's policies or procedures applicable to the engagement.
- .014F Ordinarily, the engagement team may depend on the firm's system of quality management unless:
- The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or
  - Information provided by the firm or other parties about the effectiveness of such policies or procedures suggests otherwise.
- For example, the engagement team may depend on the firm's system of quality management in relation to:
- Competence and capabilities of personnel through their recruitment and formal training.
  - Independence through the accumulation and communication of relevant independence information.
  - Maintenance of client relationships through the firm's policies or procedures for acceptance and continuance of engagements.
  - Adherence to regulatory and legal requirements through the firm's monitoring and remediation process.
- In considering deficiencies identified in the firm's system of quality management that may affect engagements to provide auditor assistance to underwriters and others, the engagement partner may consider the remedial actions undertaken by the firm to address those deficiencies that the engagement partner considers are sufficient in the context of the engagement.
- .014G A deficiency in the firm's system of quality management does not necessarily indicate that an engagement to provide auditor assistance to underwriters and others was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the auditor's comfort letter was not appropriate.
- Terminology**
- .015 The following explanation of a number of terms used in the securities industry is provided for convenience.
- (a) A **bring-down letter** is an abbreviated letter updating the procedures described in a previously issued comfort letter.
  - (b) A **comfort letter** is a letter issued by an auditor to assist an underwriter in connection with an offering of securities under an offering document.
  - (c) A **due diligence defence** is the defence against civil liabilities under the Securities Acts available to underwriters, directors and others who signed a prospectus, based on their reasonable investigation with respect to the offering.
  - (d) A **due diligence meeting** is a meeting of the underwriter, the auditor, and ordinarily a representative of the issuer's management and legal counsel for both the issuer and the underwriter, designed to enable the underwriter to further its investigation of the issuer's affairs, including the content of any offering document.
  - (e) An **exempt offering** is an offering of securities that is exempt from the prospectus requirements under securities legislation. An exempt offering may involve the preparation of an 'offering memorandum' as defined in securities legislation or a similar document, or may involve only a term sheet and/or a subscription agreement.
  - (f) A **misrepresentation** (as defined in Canadian securities legislation) is an untrue statement of a material fact, or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. A **material fact** means a fact that would reasonably be expected to have a significant effect on the market price or value of the securities being offered.
  - (g) An **offering document** is a document that offers securities for sale or exchange, such as a prospectus, share exchange takeover bid or information circular, or an offering memorandum for a private placement or other exempt offering. As used in this Section, the term 'offering document' does not include a term sheet or subscription agreement.
  - (h) A **private placement** is the exempt offering of securities in circumstances that do not require the use of a prospectus.
  - (i) A **prospectus** is an offering document that offers securities to the public, containing information about the business of the issuer, its officers and directors, details of the offering, financial statements and other information, all as prescribed by securities legislation.
  - (j) A **short form prospectus** is a summarized form of prospectus of an issuer that meets specified criteria, that contains only summary information about the issuer and details of the offering, and incorporates by reference information about the business of the issuer and financial information including financial statements previously published and filed with securities regulatory authorities.

- (k) An **underwriter** is a financial intermediary in an offering of securities, acting as either an underwriter that purchases securities for resale to investors or an agent that offers securities for the account of the issuer or vendor.

#### **ENGAGEMENT LEVEL QUALITY MANAGEMENT**

- .015A *The engagement partner should take overall responsibility for:*
- (a) *Managing and achieving quality on the engagement to provide assistance to underwriters and others and being sufficiently and appropriately involved throughout the engagement;*
  - (b) *The engagement being performed in accordance with the firm's quality management policies or procedures, by:*
    - (i) *Following the firm's policies or procedures regarding the acceptance and continuance of client relationships and engagements;*
    - (ii) *Determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement;*
    - (iii) *Being satisfied that the engagement team, and any practitioner's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including having sufficient time, to perform the engagement;*
    - (iv) *Being alert for indications of breaches of relevant ethical requirements by members of the engagement team, and determining the appropriate actions if matters come to the engagement partner's attention indicating that members of the engagement team have breached relevant ethical requirements;*
    - (v) *Directing and supervising engagement team members, reviewing their work, and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements;*
    - (vi) *Taking responsibility for appropriate engagement documentation being assembled, appropriately maintained and retained; and*
    - (vii) *When an engagement quality review on the engagement to provide assistance to underwriters and others is required in accordance with [CSQM 1](#) or the firm's policies or procedures, not dating the comfort letter until the completion of the engagement quality review.[DEC. 2022] 11*
- .015B The actions of the engagement partner and appropriate messages to the other members of the engagement team, in the context of the engagement partner taking overall responsibility for managing and achieving quality on each engagement, emphasize the importance to achieving the quality of the engagement of:
- (a) Performing work that complies with professional standards and regulatory and legal requirements.
  - (b) Complying with the firm's quality management policies or procedures as applicable.
  - (c) Issuing the comfort letter for the engagement that is appropriate in the circumstances.
- Acceptance and continuance of client relationships and engagements**
- .015C [CSQM 1](#) requires the firm to establish quality objectives dealing with the appropriateness of its judgments about whether to accept or continue a client relationship or engagement based on information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgments. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the engagement, it may not be appropriate to accept the engagement.
- Compliance with relevant ethical requirements in conducting the engagement**
- .015D [CSQM 1](#) sets out the responsibilities of the firm for establishing quality objectives that address the fulfillment of responsibilities in relation to the relevant ethical requirements. This Section sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements. 12
- COMFORT LETTERS**
- .016 When there is an offering document, the underwriter may ask the issuer to engage its auditor to provide the underwriter with a letter that refers to the audit report included or incorporated by reference in the document, expresses an opinion as to compliance of the audited financial statements with legal requirements, and confirms the auditor's independence. The auditor may also be asked to provide negative assurance on unaudited financial statements. In addition, the underwriter may request assistance from the auditor with respect to a wide range of information in offering documents. Unless the auditor has been engaged to undertake a separate assurance engagement, such assistance takes the form of having the auditor perform procedures specified by the underwriter. The auditor reports the procedures carried out and the results obtained, but does not provide either positive or negative assurance on the information. Only the underwriter can determine the information on which comfort is required and the procedures that will provide the required degree of

comfort. Consequently, it is important for the auditor, the issuer's management and the underwriter to reach early understanding and agreement as to the underwriter's requirements and the procedures the auditor can properly perform.

- .017 *When an 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 acknowledgment from the underwriter of the limitations agreed with the issuer. [Appendix 2](#) in AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section 7150, illustrates an engagement letter addressed to the issuer. [APRIL 2013 \* ]
- .018 *When an auditor is engaged to issue a comfort letter, the auditor is associated with the offering document, and should complete the procedures required under AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section 7150, before issuing the comfort letter.* [APRIL 2013 \* ]
- .019 *The auditor should not provide any form of assurance in a comfort letter relating to the offering document as a whole.* [MAR. 2005 \* ]
- .020 As noted in paragraph [7200.014](#), there may be circumstances in which the auditor has a reasonable basis to believe that the offering document may contain a misrepresentation.
- .021 *If the auditor has a reasonable basis to believe that the offering document may contain a misrepresentation, the auditor should discuss the matter with the issuer and possibly the issuer's legal counsel. Unless and until the matter is resolved to the auditor's satisfaction, the auditor should withhold his or her consent and should not issue a comfort letter.* [MAR. 2005 \* ]

#### **Assistance to a party that does not have a due diligence defence**

- .022 As explained in paragraph [7200.008](#), the auditor would not issue a comfort letter to a party that does not have a due diligence defence without first obtaining a representation letter in satisfactory form asserting that the requesting party is knowledgeable with respect to a due diligence investigation, and is or will be performing such an investigation. [Examples D](#) and [E](#) respectively illustrate suitable wording for a representation letter from the requesting party and for the comfort letter issued by the auditor.
- .023 *Before issuing a comfort letter to a party that does not have a due diligence defence, the auditor should obtain a representation letter from the requesting party, stating that the requesting party:*
  - (a) *is knowledgeable with respect to a 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 comfort letter, the auditor should follow the Recommendations of this Section relating to a comfort letter to an underwriter.* [MAR. 2005 \* ]
- .024 If the requesting party does not furnish the auditor with a satisfactory representation letter, the auditor would not agree to issue a comfort letter. Because the requesting party has shown unwillingness to assure the auditor with respect to its due diligence, the auditor may conclude that the requesting party intends to substitute reliance on the audited financial statements for assurance that it should obtain by performing its own due diligence assessment. In these circumstances, failure by the auditor to communicate with the requesting party could establish a duty of care, since the auditor has become aware of the requesting party's intention to rely on the audited financial statements. Accordingly, the auditor would consider writing to the requesting party stating that he or she does not accept a duty of care in relation to their use of the financial statements or the auditor's report in connection with the transaction in question. [Example F](#) illustrates such a letter.
- .025 *Unless the auditor has received a satisfactory representation letter from a requesting party that does not have a due diligence defence, the auditor should not agree to issue a comfort letter. If the requesting party does not provide a satisfactory representation letter, the auditor should consider writing to the requesting party stating that only the parties to whom the auditor's report is addressed (normally the shareholders or directors) are entitled to rely on it, and that the auditor does not agree to be associated with the proposed offering and disclaims any responsibility with respect to it.* [MAR. 2005 \* ]
- .026 Although the auditor cannot issue a comfort letter in these circumstances, the auditor could issue a report that avoids expressing either positive or negative assurance, and contains three important caveats as outlined in paragraph [7200.027](#) in addition to those that appear in a comfort letter. [Example G](#) illustrates such a letter.
- .027 *In any communication issued to the requesting party reporting the results of applying procedures specified by the requesting party to items appearing in the offering document, the auditor should avoid expressing either positive or negative assurance on the financial statements as a whole, or on any of the specified elements, accounts, or items thereof. However, the auditor may report procedures performed and results obtained, and in addition to the caveats contained in a comfort letter, should state that:*
  - (a) *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) *the procedures should not be taken to supplant any inquiries or procedures that the requesting party would otherwise undertake in considering the proposed offering; and*
  - (c) *the auditor has no responsibility to update the letter for events and circumstances occurring after a stated date.* [MAR. 2005 \* ]

## **Procedures**

- .028 The request for a comfort letter is made through the issuer and is usually incorporated in the terms of the underwriting or agency agreement between the issuer and the underwriter. Typically, the auditor is asked to provide negative assurance on unaudited financial statements, and to apply specified procedures to selected items of a financial nature included or incorporated by reference in the offering document, and to report the results. Such specified procedures may be applied to changes in selected financial statement items subsequent to the date of the latest published financial statements, and specific items of financial or other information included or incorporated by reference in the offering document.
- .029 The auditor may suggest a meeting with management and the underwriter, or consultation by telephone or other means, to discuss the procedures to be followed in connection with the letter. The auditor may describe procedures that are frequently performed, as illustrated in [Example A](#). Because of the auditor's understanding of the entity and its environment, such a discussion may substantially assist the underwriter in reaching a decision about procedures to be followed by the auditor. Also, the auditor can advise the underwriter and management if, for any reason, it is not feasible to perform a requested procedure.
- .030 There is a danger that misunderstanding could arise regarding the nature and scope of the auditor's comfort letter. The auditor will have applied professional standards with respect to audited financial statements covered by the audit opinion, unaudited financial statements covered by a review engagement report, and any other financial information that has been the subject of a specific assurance engagement. The comments an auditor can properly make regarding other information contained in an offering document are restricted to reporting the limited procedures requested by the underwriter and the results of applying those procedures. In requesting comfort letters, underwriters are generally seeking assistance on matters of importance to them. They wish to perform a "reasonable investigation" of financial and accounting data not covered by a report of an auditor or other expert. What constitutes a reasonable investigation of financial information sufficient to satisfy an underwriter's purposes has never been established authoritatively. Consequently, only underwriters can determine what is sufficient for their purposes.
- .031 *In any discussion of procedures, the auditor should not indicate in any manner that he or she can make any representation regarding the sufficiency of the procedures for the underwriter's purposes.* [JAN. 2001 \* ]
- .032 Auditors will normally be willing to assist an underwriter, but the assistance auditors can provide by way of comfort letters 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 substantially relevant. Another limitation is that procedures such as those contemplated in a comfort letter provide the auditor with a basis for reporting no more than a list of procedures performed and the results of applying those procedures. Such limited procedures may bring to the underwriter's attention significant matters affecting the financial information, but they do not provide assurance that the underwriter will learn of all information that he or she may wish to know. Because matters concerning the entity's operations and financial results are the responsibility of management and may not be within the expertise of the auditor, they are best communicated to the underwriter by management. Other matters such as the scope of the audit and the audit results are the responsibility of the auditor and are best communicated to the underwriter by the auditor.
- .033 To gain an understanding of what will be expected in the comfort letter, it is desirable for the auditor to obtain a draft of the underwriting or agency agreement at the earliest opportunity. If a draft is not available, the auditor would inquire of the underwriter as to the requirements for the comfort letter.
- .034 To ensure a mutual understanding of the procedures to be followed, it is desirable that the auditor, after discussing the comfort letter with management and the underwriter, furnish both with a draft of the letter he or she expects to be able to issue, clearly identified as a draft. It would be appropriate to include a head-note to the draft explaining the basis on which the draft is provided. [Example H](#) illustrates such a head-note.

## **Cross-border and international offerings**

- .035 When all or part of a securities offering is made in one or more other countries, the auditor will have to consider the possible need to extend or otherwise modify his or her procedures in response to foreign regulatory requirements or the request of the underwriters. For example, underwriters may ask for a comfort letter to be issued in accordance with the standards of the foreign country. Or, they may request that the auditor carry out an audit or review under the assurance standards of the other country, and the auditor must determine whether this is feasible in the circumstances. When asked to carry out an audit under foreign standards, a Canadian auditor may properly apply the applicable standards of the country in which the offering is made, provided that he or she adheres to the rules of professional conduct of the provincial institute / ordre of which he or she is a member. Reporting in accordance with the reporting standards of another country would require knowledge of, and adherence to, all of the auditing standards of that country, including those relating to independence. In a cross-border or international offering, if the audit has been conducted in accordance with auditing standards generally accepted in Canada, the auditor may choose to draw attention to that fact in the comfort letter, and may wish to point out that there may be differences between Canadian auditing standards and those of the foreign country or countries in which the offering is made.

## **Contents of comfort letter**

- .036 The contents of a comfort letter to underwriters will vary according to the nature of the information in the offering document and the procedures agreed on by management, the underwriter and the auditor. [Examples A](#) and [B](#) illustrate letters to an underwriter regarding a prospectus, and a short form prospectus, respectively. [Example E](#) illustrates a letter to the agent in a private placement.
- .037 On occasion, underwriters request the auditor to provide comfort on the offering document as a whole. This request may take different forms. For example, the auditor may be asked to give negative assurance, based on a reading of an offering document, that he or she has no reason to believe that the document "is not presented fairly" or "contains a misrepresentation". Alternatively, an underwriter may ask the auditor to provide negative assurance that, as a result of carrying out the specified procedures, nothing has come to his or her attention, other than what is disclosed in the comfort letter, that would be of interest to the underwriter. There are no assurance standards by which an auditor can properly make such a statement; further, professional standards do not permit an auditor to give negative assurance based on the performance of specified procedures. As well, there is no way for the auditor to anticipate matters other than those included in the letter that would be of interest to the underwriter. Accordingly, the auditor cannot and would not provide any form of assurance relating to the offering document as a whole.
- .038 An underwriter or other party may draw attention to the requirement of Canadian securities legislation that the auditor, in his or her consent to the use of the auditor's report, provide negative assurance to the regulator as to the absence of a misrepresentation in the offering document, and may ask the auditor to include similar assurance in the comfort letter addressed to the underwriter. The auditor would explain that he or she provides such a letter in this form only because of a statutory requirement to do so, to assist the regulators in carrying out their responsibilities regarding the prospectus. A statutory requirement to report in a specified manner to a particular regulatory body does not imply that it is professionally appropriate to report in a similar manner to other parties. Professional assurance standards do not permit the expression of assurance, negative or positive, in such circumstances.
- .039 Occasionally, an underwriter may ask the auditor to repeat in the comfort letter his or her report on the audited financial statements or other financial information included, or incorporated by reference, in the offering document. Alternatively, the underwriter may request the auditor to provide negative assurance regarding such a report. Because of the significance of the date of the report and the context in which it was issued, it would be inappropriate to repeat the report in the comfort letter. Moreover, the auditor would decline to give negative assurance on an auditor's report, as the additional significance of negative assurance on an auditor's report is unclear and might therefore give rise to misunderstanding. Nor would the auditor agree to give negative assurance on financial statements in the offering document that have been audited and reported on by another auditor, as he or she cannot properly, without performing an audit in accordance with generally accepted auditing standards, add credibility to financial statements that are the subject of the professional opinion of another auditor.
- .040 *The auditor should not:*
- (a) *repeat in the comfort letter his or her report on financial statements or other financial information, nor provide negative assurance on any report included or incorporated by reference in the offering document; nor*
  - (b) *give negative assurance with respect to financial statements included or incorporated by reference in the offering document that have been audited and reported on by another auditor.* [JAN. 2001 \*]
- Addressee**
- .041 The auditor would address the comfort letter to the underwriter or other party requesting the comfort letter and, if requested to do so, to the board of directors of the issuer.
- .042 *The auditor should address the comfort letter only to the underwriter or other party requesting the comfort letter, and the directors of the issuer, and should restrict the distribution of the letter to the addressee(s).* [JAN. 2001 \*]
- Date**
- .043 In the case of a prospectus, the date of the comfort letter is ordinarily the same as the date of the prospectus. In the case of an offering document other than a prospectus, the letter may bear the same date as the document, or any prior date agreed upon by the underwriter and the auditor, and the auditor would state in the letter that he or she has no responsibility to update the procedures described in the letter. The underwriting or agency agreement usually specifies the date (the "cut-off" date) to which certain procedures described in the letter are to relate (for example, a date five days before the date of the letter).
- .044 *The comfort letter should state that the inquiries and other procedures described in the letter covered the period to the cut-off date, but did not cover the period from the cut-off date to the date of the letter.* [JAN. 2001 \*]
- .045 An underwriter may ask the auditor to provide a letter reporting the updating of the procedures described in a previously issued comfort letter (see [Example C](#)). This is commonly referred to as a "bring-down" letter. Such a letter would be issued at or shortly before the closing date (that is, the date on which the issuer or selling security holder delivers the securities to the underwriter in exchange for the proceeds of the offering). If more than one letter is requested, it will be necessary to carry out the specified procedures and inquiries

as of the cut-off date for each letter. Although comments contained in an earlier letter may, on occasion, be incorporated by reference in a subsequent letter, any subsequent letter would relate only to information in the offering document in effect at the date of the letter.

**Introductory paragraphs**

- .046 The introductory paragraph of the comfort letter would indicate that the letter is given to the underwriter at the request of the issuer's management. When there is an underwriting or agency agreement, the letter would usually state that the letter is given pursuant to the terms of that agreement.
- .047 It is normally desirable to include a paragraph referring to the reports issued by the auditor that are included or incorporated by reference in the offering document. The second paragraph of [Example A](#) provides illustrative wording. If requested by the underwriter, the auditor may also refer in the introductory paragraphs of the comfort letter to other reports, if any, previously issued on:
- (a) interim financial statements;
  - (b) pro forma financial information;
  - (c) future-oriented financial information; or
  - (d) other financial information.

If the reports are not included or incorporated by reference in the offering document, the auditor may choose to attach them to the comfort letter. In referring to previously issued reports, the auditor would not repeat the reports in the comfort letter or otherwise imply that he or she is reporting as of the date of the comfort letter.

**Independence**

- .048 It is customary for the underwriter to request the auditor to make a statement in the letter affirming his or her independence. 13 In provinces other than Québec, a request for an affirmation of the auditor's independence can be met by using words such as "I am the auditor of X Limited and am independent within the meaning of the Rules of Professional Conduct of [name of provincial institute]." In Québec, the appropriate wording would be "I am the auditor of X Limited and am independent within the meaning of the Code of Ethics of the Ordre des comptables professionnels agréés du Québec." 14

**Compliance as to form with legal requirements**

- .049 The auditor may be requested to express an opinion on whether the financial statements covered by his or her report comply as to form with the published accounting requirements of the governing securities acts and regulations. When the auditor has audited these financial statements, he or she may provide positive assurance. Item 2 of [Example A](#) illustrates such a form of assurance. If there is a significant departure from the applicable requirements, the auditor would ensure that the issuer has received appropriate relief from regulatory authorities, and the departure would be disclosed in the letter. When the auditor has reviewed, but not audited, the financial statements, he or she is limited to providing negative assurance on compliance as to form (see Example A, item 5(a)). In a comfort letter related to an exempt offering, reference need not be made to compliance as to form with legal or regulatory requirements.

**Auditor's consent**

- .049A The auditor may be requested to provide the underwriter with a statement similar to the one provided in the auditor's consent as outlined in AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, paragraph [7150.23\(c\)\(i\)](#).

- .049B *The auditor should refrain from providing a statement that the auditor has no reason to believe that there are any misrepresentations, and explain that the statement in the auditor's consent is provided only because of a regulatory requirement to do so. In addition, with respect to the offering document, the auditor should state in the comfort letter that:*

- (a) *the auditor makes no representations regarding questions of legal interpretation; and*
- (b) *the procedures that the auditor performed under Canadian generally accepted standards for an auditor's consent to the use of a report of the auditor included in an offering document do not constitute an engagement to audit or review the offering document as a whole. [APRIL 2013 \* ]*

**Comments on matters on which the auditor has not issued a report**

- .050 The auditor may be requested by the underwriter to read and make inquiries, perform procedures, and report in the comfort letter with respect to the following kinds of information:
- (a) unaudited financial statements included or incorporated by reference in the offering document;
  - (b) unaudited internal financial statements for periods subsequent to the periods covered by the financial statements included or incorporated by reference in the offering document;
  - (c) selected financial information, including changes in financial statement items; and/or
  - (d) statistics and other information.

- .051 The auditor would comment on any such matter only after having obtained an understanding of the issuer's internal control as it relates to the preparation of both annual and interim financial information. An understanding of the issuer's internal control includes an understanding of the five components of internal control.<sup>15</sup> An auditor who has audited an entity's financial statements ordinarily would have acquired a sufficient understanding of the entity's controls as they relate to the preparation of annual financial information, and may have acquired such an understanding with respect to interim financial information. An auditor who has performed a review in accordance with AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS, Section [7060](#), ordinarily would have acquired such an understanding with respect to the period(s) encompassed by the review. When the auditor has not acquired a sufficient understanding of the entity's controls, he or she would perform procedures to obtain that understanding.
- .052 It would be inappropriate for the auditor to add credibility to information relating to a period for which he or she does not have an understanding of the issuer's internal control. The auditor would give comfort on financial statement items, other financial information, or statistics and other information with respect to periods not covered by his or her audit engagement only after having obtained or updated an understanding of internal control for the periods.
- .053 *The auditor should have obtained an understanding of the entity's internal control as it relates to the preparation of both annual and interim financial information, before commenting on:*
- (a) *unaudited financial statements included or incorporated by reference in the offering document;*
  - (b) *unaudited internal financial statements for periods subsequent to the periods covered by the financial statements included or incorporated by reference in the offering document;*
  - (c) *selected financial information, including changes in financial statement items; or*
  - (d) *statistics and other information. [JAN. 2001 \*\*\* ]*
- Unaudited interim financial statements included or incorporated by reference
- .054 At the request of the underwriter, the auditor may provide the underwriter with negative assurance on unaudited interim financial statements included or incorporated by reference in the offering document, provided that the standards set out in AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS, Section [7060](#), have been met and the appropriate procedures have been satisfactorily completed. Such negative assurance would be restricted to a statement as to whether any material modification needs to be made for the interim financial statements to be in accordance with the applicable financial reporting framework, and reference to compliance as to form with the published accounting requirements of securities legislation.
- .055 *In providing negative assurance in the comfort letter on unaudited interim financial statements included or incorporated by reference in the offering document, the auditor should identify the interim financial statements the auditor has reviewed and should state:*
- (a) *that the auditor has performed a review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor;*
  - (b) *that such an interim review consists principally of applying analytical procedures to financial data, and making inquiries of, and having discussions with, persons responsible for financial and accounting matters;*
  - (c) *that an interim review is substantially less in scope than an audit, whose objective is an expression of opinion regarding the financial statements, and that accordingly, no such opinion is expressed on the interim financial statements; and*
  - (d) *that an interim review does not provide assurance that the auditor would become aware of any or all significant matters affecting the interim financial statements that might be identified in an audit. [OCT. 2001 \* ]*
- .056 For certain junior issuers, some securities regulatory authorities will accept a comfort letter based on a review of unaudited annual or interim financial statements performed in accordance with [CSRE 2400](#).<sup>16</sup> In these circumstances, the accountant could issue a form of comfort letter that is consistent with the wording of the review engagement report suggested for that type of engagement, by modifying the wording of the letter to provide comfort on the interim financial statements consistent with the reporting requirements of CSRE 2400. To meet the requirements of securities legislation, the letter could also provide negative assurance as to compliance as to form with the published accounting requirements of securities legislation.
- Subsequent changes
- .057 Frequently, auditors are requested to comment on subsequent changes in items in the balance sheet or income statement included or incorporated by reference in the offering document. These changes, which would be restricted to components reported in the financial statements, may include changes in share capital, increases in long-term debt, or decreases in other specified financial statement items during a period (commonly referred to as the "change period") beginning subsequent to the date and period of the latest financial statements included or incorporated by reference in the document, and ending at the cut-off date (see paragraph [7200.043](#)). Auditors may also be requested to address such matters as subsequent

changes in the amount of net current assets or net assets, net sales, and the total and per-share amounts of net income. The comments on subsequent changes would be limited to reporting changes in amounts, and would avoid addressing the reasons for such changes.

- .058 There may be internal financial statements available for one or more accounting periods following the date of the most recent financial statements included or incorporated by reference in the offering document. As a basis for commenting on subsequent changes, the auditor would read any such available internal financial statements, and inquire of management officials as to whether such statements are stated, in all material respects, on a basis consistent with that of the audited financial statements included or incorporated by reference in the offering document.
- .059 For both the period(s) covered by the available internal financial statements referred to in the preceding paragraph, and the period between the date of the latest available internal financial statements and the cut-off date, the auditor's procedures with respect to such changes would include reading minutes of meetings of shareholders, directors, and various committees and making inquiries of management officials relating to the whole of the change period.
- .060 Usually there will be a period immediately preceding the cut-off date for which complete accounting information is not yet available. The auditor would consider whether it is appropriate to provide comfort with respect to changes, increases or decreases that may have occurred during this period. Frequently it would be possible for the officials consulted to speak to changes in some items (for example, long-term debt and share capital), but not others (for example, revenues and net income). It would be inappropriate for the auditor to give comfort if the officials consulted were unable to respond fully to inquiries about changes that may have occurred.
- .061 It may be desirable for the auditor to obtain written representations from management with respect to changes subsequent to the date of the most recent financial statements in the offering document. Frequently, such representations are included in a letter confirming management's representations with respect to unaudited financial statements included in the document and reviewed by the auditor, and other representations made to the auditor in response to the auditor's inquiries. [Example I](#) illustrates such a letter.
- .062 *For the change period, the auditor should base his or her comments solely on the limited procedures actually performed with respect to that period and should make this clear in the comfort letter.* Items 4, 5 and 6 of [Example A](#) illustrate these procedures. [JAN. 2001 \* ]
- .063 Usually, a change in an accounting principle made during the change period would be disclosed in the financial statements included or incorporated by reference in the offering document. If such disclosure is not made in the financial statements, the auditor would describe the change in the comfort letter.
- .064 Auditors are sometimes asked to state in the comfort letter that there have been "no adverse changes" or "no material adverse changes", or to make similar general statements about developments during the change period. In order to avoid subjective determinations that are susceptible of misinterpretation, it is important that the auditor not agree to provide such a comment in the comfort letter.
- .065 *In order that comments on subsequent changes be unambiguous and their determination be within the auditor's expertise, the auditor should not refer to "adverse changes" or "material adverse changes", or make similar general statements about developments during the change period.* [JAN. 2001 \* ]
- .066 Comments on matters such as the occurrence of changes in share capital, increases in long-term debt, and decreases in other specified financial statement items are ordinarily limited to changes, increases or decreases not disclosed or contemplated in the offering document.
- .067 *When it has come to the auditor's attention that a change, increase or decrease in a financial statement item on which the auditor has been asked to comment has occurred during the change period:*
  - (a) *if the amount of the change, increase or decrease is not disclosed in the offering document, the auditor should note the amount of such change, increase or decrease in the comfort letter; or*
  - (b) *if the change, increase or decrease, actual or contemplated, is disclosed in the offering document, the phrase "except for changes, increases or decreases that the offering document discloses have occurred or may occur" should be included in the letter.* This phrase need not be included in the letter when there are no changes, increases or decreases in the specified financial statement items disclosed in the document.

[Example J](#) illustrates comfort letter disclosure of subsequent changes. [JAN. 2001 \* ]

- .068 In the context of a comfort letter, an increase (or a decrease) occurs when the amount of a financial statement item at the cut-off date or for the change period (as if financial statements had been prepared at that date and for that period) is more (or less) than the amount of the same item at a specified earlier date or for a specified earlier period.
- .069 The change period for which the auditor provides comfort ends on the cut-off date (see paragraph [7200.043](#)) and ordinarily begins, for balance sheet items, immediately after the date of the last balance sheet in the offering document and, for income statement items, immediately after the latest period for which such items are presented in the document.
- .070 The comparison relates to the entire period and not to portions of that period. For example, 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 there was no decrease for the period as a whole, the comfort letter would not report the decrease occurring during one part of the period.

- .071 The underwriter or the underwriting or agency agreement usually specifies 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. For balance sheet items, the comparison date is normally that of the latest balance sheet included or incorporated by reference in the document (that is, immediately prior to the beginning of the change period). For income statement items, the comparison period or periods would ordinarily be the corresponding period of the preceding year, but might be instead, or might include in addition, any period of corresponding length chosen by the underwriter.
- .072 Whether or not specified in the underwriting or agency agreement, the date and period used in comparison would be identified in the comfort letter in both draft and final form so that there is no misunderstanding about the matters being compared and so that the underwriter can determine whether the comparison date and period are suitable for his or her purposes.
- Pro forma financial statements
- .072A Pro forma financial statements are historical financial statements adjusted to show the effect of an event, transaction or proposed transaction as if it had occurred previously. The presentation of pro forma financial statements in a prospectus may assist the reader in understanding the nature and effect of transactions such as the acquisition or disposition of a business. In some jurisdictions the issuer may be permitted or required to include pro forma financial statements in a prospectus.
- .072B Generally, it is not feasible for the auditor to audit pro forma financial statements, since this would entail performing an audit of all of the underlying historical financial statements, in addition to auditing the pro forma adjustments and the compilation of the pro forma statements. There are no generally accepted accounting principles in Canada regarding the preparation and presentation of pro forma financial statements that allow the auditor to assess the fairness of presentation of the pro forma financial statements appearing in a prospectus. For similar reasons, it is generally not feasible for the auditor to provide any other form of assurance. As a result, the auditor's work is normally confined to making inquiries about the pro forma adjustments and compliance of the statements with any regulatory requirements, and performing mechanical procedures on their compilation.
- .072C In performing procedures on the pro forma financial statements, the auditor may become aware that, although properly compiled, the pro forma financial statements may not comply with the requirements of securities legislation. For example, the auditor may conclude that the pro forma financial statements do not appropriately reflect the application of the applicable financial reporting framework to a transaction.
- .072D The exact nature and extent of the procedures to be applied to the pro forma financial statements are determined by the terms of the engagement. Such procedures usually consist of the following:
- (a) read the pro forma financial statements;
  - (b) check the historical figures used in the pro forma financial statements to the historical audited or unaudited financial statements;
  - (c) make inquiries about:
    - (i) the basis for determination of the pro forma adjustments; and
    - (ii) whether the pro forma statements comply as to form in all material respects with applicable regulatory requirements; and
  - (d) recalculate the application of the pro forma adjustments to the amounts in the underlying historical financial statements.
- .072E *If the auditor becomes aware that the pro forma financial statements are not properly compiled, or do not comply as to form with the requirements of securities legislation, he or she should advise the underwriter. [JAN. 2012 \* ]*
- .072F Further, AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section [7150](#), requires the auditor to withhold consent to the use of his or her audit report in such cases.
- .072G The following is an example of paragraphs that may be inserted in a comfort letter to report on the results of applying specified procedures to the pro forma financial statements:
- At your request, we performed the following procedures on the company's pro forma financial statements dated ..... , 20...:
- (a) Read the pro forma financial statements.
  - (b) Compared the figures in the columns captioned "Acquirer Limited" to the historical unaudited (condensed) (consolidated) financial statements of Acquirer Limited as at June 30, 20X3 and for the six-month period then ended and Acquirer Limited's historical audited (consolidated) financial statements for the year ended December 31, 20X2, respectively, and found them to be in agreement.
  - (c) Compared the figures in the columns captioned "Target Limited" to the historical unaudited (condensed) (consolidated) interim financial statements of Target Limited as at June 30, 20X3 and for the six-month period then ended and Target Limited's historical audited (consolidated) financial statements for the year ended December 31, 20X2, respectively, and found them to be in agreement. 17
  - (d) Inquired of certain officials of Acquirer Limited and Target Limited who have responsibility for financial and accounting matters about the basis for determination of the pro forma adjustments and whether the pro forma financial statements comply as to form in all material respects with [identified regulatory requirements].

Those officials referred to above described to us, in response to our inquiries, the basis for determination of the pro forma adjustments and stated that the pro forma financial statements comply as to form in all material respects with [identified regulatory requirements].

- (e) Recalculated the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the unaudited (consolidated) pro forma financial statements, and found them to be arithmetically correct.

The above procedures do not constitute an audit of the company's pro forma financial statements. Accordingly, I do not express an opinion on the pro forma financial statements as at ..... , 20....

Other matters

- .073 Certain financial information in offering documents that are subject to regulation under securities legislation is included because of specific provisions of a form or other regulatory requirement. The auditor may undertake a separate assurance engagement to enable him or her to express negative assurance as to whether this information is in compliance with the requirements, provided that the information is capable of evaluation against reasonable criteria established by regulatory authority (see [CSAE 3000, Attestation Engagements Other than Audits or Reviews of Historical Financial Information](#)). Examples of disclosure requirements that would generally meet these conditions include:
- (a) selected consolidated financial information (three-year summary);
  - (b) dividend record; and
  - (c) executive compensation.

With respect to many other disclosure requirements, it would be inappropriate to provide negative assurance as to compliance with regulatory requirements because certain of the information required is not capable of evaluation against reasonable criteria. However, the auditor's inability to comment on compliance with these requirements does not preclude the auditor from performing procedures with respect to this information and reporting the results in the comfort letter.

- .074 *In commenting on other information, the auditor should not express either positive or negative assurance unless the auditor has audited or reviewed the information in accordance with professional standards.* [JAN. 2001 \* ]

- .075 When the auditor performs procedures with respect to specific items of financial or other information in the offering document, it is important that the comfort letter be worded so as to minimize the possibility of misinterpretation.

- .076 To avoid ambiguity, it is important that the specific information commented on in the letter be identified by reference to specific captions, tables, page numbers, paragraphs or sentences. This information may be presented in any one of several ways. Descriptions of the procedures followed and the results obtained may be stated individually for each item of specific information commented on, as illustrated in items 7 and 9 of [Example A](#). Alternatively, if the procedures and findings are adequately described, some or all of the descriptions may be grouped or summarized, as long as the applicability of the descriptions to items in the offering document is clear and the descriptions do not imply that the auditor assumes responsibility for the adequacy of the procedures. It may also be appropriate to present a matrix, listing the information and procedures applied to the specific items. The auditor may also choose to identify procedures performed using specific symbols, and identify items to which those procedures have been applied directly on a copy of the applicable pages of the offering document, or any other document incorporated by reference, which are attached to the comfort letter. [Example K](#) illustrates this approach.

- .077 *When the auditor provides a comfort letter reporting procedures performed with respect to specific items of financial or quantitative information in the offering document:*

- (a) *the comfort letter should:*
  - (i) *specifically identify the information;*
  - (ii) *describe in detail the procedures performed at the request of the underwriter; and*
  - (iii) *describe the results of applying the procedures;*
- (b) *the comfort letter should state that:*
  - (i) *the information has not been audited;*
  - (ii) *the auditor makes no representation regarding any matter of legal interpretation;*
  - (iii) *the auditor makes no representation about the adequacy for the underwriter's purposes of the procedures followed;*
  - (iv) *such procedures would not necessarily disclose material misstatements or omissions in the information to which the comments relate; and*
  - (v) *the auditor makes no representations about the adequacy or completeness of the disclosure; and*

- (c) *the comfort letter should avoid the use of terms of uncertain meaning (such as "general review", "limited review", "reconcile", "test" or "check") unless the procedures contemplated by these terms are described in the letter.* [JAN. 2001 \*\* ]

Other financial information

.078 *The auditor should comment on financial information contained in the offering document only when:*

- (a) *it has been obtained from the entity's financial statements or accounting records that are subject to the entity's internal control;*
- (b) *it has been derived directly from such financial statements or accounting records by analysis or computation (for example, percentages or financial ratios); or*
- (c) *it has been the subject of a separate assurance engagement performed in accordance with [CSAE 3000](#), Attestation Engagements Other than Audits or Reviews of Historical Financial Information, or in the case of audits of historical financial information, in accordance with [CAS 805](#), Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.* [JUNE 30, 2017 \* ]

.079 The auditor could agree to report on a procedure such as comparing information contained in an offering document to a schedule prepared by management, but only if the information in the schedule has been derived from accounting records subject to the entity's internal control, of which the auditor has an understanding. While responsibility for determining the appropriateness and sufficiency of the procedures required for the underwriter's purposes rests with the underwriter, the auditor has a professional responsibility not to be associated with information that he or she believes, or has reason to believe, is false or misleading.

.080 The auditor would generally not be in a position to comment on matters primarily involving the exercise of management's business judgment. For example, the causes of changes between periods in gross profit ratios or net income may not necessarily be within the auditor's knowledge and expertise. It would be appropriate for the auditor to comment on management's explanation of such changes only if he or she had obtained the necessary information by performing a separate assurance engagement in accordance with [CSAE 3000](#), *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*, such as an engagement to report on management's discussion and analysis of financial condition and results of operations (MD&A). In that case, the auditor may agree to extend his or her comments to matters covered by the separate assurance engagement.

.081 The auditor would not comment on the appropriateness of allocations made to derive segment information, since the auditor's report encompasses that information. In some cases, an auditor may be requested to make a statement as to the acceptability of methods of analysis or allocation used in deriving figures not reported in the segment disclosures in the financial statements. Whether the auditor may properly comment on the methodology applied will depend on the extent to which such allocation is made in, or can be derived directly by analysis or computation from, the entity's accounting records. In any event, such comments, if made, would make clear that such allocations are to a substantial extent arbitrary, that the method of allocation used is not the only acceptable one, and that other acceptable methods of allocation might produce substantially different results.

Other non-financial information

.082 The auditor may be asked to comment on a wide variety of non-financial information, ranging from information taken directly from the financial statements to information that has no connection with the accounting records of the entity.

.083 The auditor would not comment on information subject to legal interpretation, such as beneficial share ownership or contracts, or on matters such as engineering data or mineral reserves.

.084 *The auditor should comment only on matters to which his or her professional competence is relevant.* [JAN. 2001 \* ]

.085 Any procedures the auditor agrees to perform on non-financial information would be such as to add a measure of credibility to the information being commented on. The auditor would not comment on matters merely because he or she happens to be present and is capable of reading, counting, measuring or performing other functions that might be applicable. In most such cases, underwriters can derive the same degree of comfort with respect to the information by performing the procedures themselves. For the auditor to comment in the comfort letter on the performance of such mechanical functions on non-financial information can only add a degree of comfort that is unwarranted and may prove to be misleading.

.086 Examples of matters on which comment would generally be inappropriate are the proposed use of proceeds of the issue, area of facilities, number of employees (except as related to a given payroll period), and backlog information.

.087 *The auditor should comment on quantitative information other than financial information only when:*

- (a) *it has been obtained from accounting records that are subject to internal control, of which the auditor has an understanding; or*
- (b) *it has been the subject of a separate assurance engagement performed in accordance with [CSAE 3000](#), Attestation Engagements Other than Audits or Reviews of Historical Financial Information.* [JUNE 30, 2017 \* ]

Concluding paragraphs

.088 In order to avoid misunderstanding by the reader of the purpose and intended use of the comfort letter, the auditor should conclude the letter with a paragraph that states that the letter is issued solely for the information of the addressee(s) and to assist the underwriter or other requesting party in connection with the offering of the securities covered by the offering document, and is not to be distributed, referred to or used for any other purpose. Item 11 of [Example A](#) illustrates such a paragraph. [JAN. 2001 \* ]

.089 Frequently, the offering memorandum for a private placement is undated; as well, there may be no legal requirement for timely disclosure of material changes in the business of the issuer. In these circumstances, unless the auditor has undertaken to update the comfort letter in light of subsequent events, it is necessary for the auditor to add a paragraph near the end of the comfort letter stating that the auditor has no responsibility to update the letter for events and circumstances occurring after the cut-off date.

.090 In a comfort letter for a private placement, a paragraph should be added asserting that the auditor has no responsibility to update the letter for events and circumstances occurring after the cut-off date, unless the auditor intends to update the letter. Item 6 of [Example E](#) illustrates such a paragraph. [JAN. 2001 \* ]

#### **Disclosure of subsequently discovered matters**

.091 An auditor who discovers matters that may require mention in the final comfort letter but that are not mentioned in the draft letter that has been furnished to the underwriter (for example, changes, increases or decreases in specified items not disclosed in the offering document as described in paragraphs [7200.057](#) and [7200.066](#)) would discuss them with management, and possibly the issuer's legal counsel, so that consideration can be given to whether disclosure needs to be made in the offering document. If disclosure is not to be made, the auditor would inform management that the matters will be mentioned in the comfort letter, and would suggest that the underwriter be informed promptly. It is desirable for the auditor to be present when management and the underwriter discuss such matters.

#### **Involvement of more than one auditor**

.092 As noted in paragraph [7200.052](#), it would be inappropriate for the auditor to add credibility to information relating to a period for which he or she does not have an understanding of the issuer's internal control. When there has been a change in auditor of the issuer, the underwriter and/or directors of the entity may request separate comfort letters from each of the auditors engaged during the years or periods covered by the financial statements and other information included in the offering document. [Example L](#) illustrates a comfort letter furnished to an underwriter by the former auditor of an issuer. Alternatively, the auditor could agree to perform a procedure such as comparing figures contained in an offering document to financial statements reported on by a predecessor or other auditor, provided he or she has first obtained an understanding of the entity's internal control for the period.

.093 There may be other situations in which more than one auditor is involved, whether or not their reports on financial statements appear in the prospectus. This may occur when the issuer has significant subsidiaries or divisions whose auditor (the "secondary" auditor) is not the same as that of the issuer (the "principal" auditor), or when there are companies that have been involved (or are proposed to be involved) in a share exchange or other business combination with the issuer. In such cases, the secondary auditor may provide a comfort letter to the principal auditor, and the principal auditor may choose to rely upon it for purposes of giving comfort to the underwriter on consolidated information. However, if the offering document contains information relating solely to subsidiaries, divisions or other entities whose financial statements have not been audited by the principal auditor, the secondary auditor may furnish a comfort letter to the underwriter. The principal auditor may choose to state in his or her comfort letter that the procedures performed by the principal auditor, other than reading the letter of the secondary auditor, relate solely to companies audited by the principal auditor and to the consolidated financial statements and other consolidated information. [Example M](#) provides illustrative wording.

.094 When comfort letters are requested from more than one auditor, each auditor must, of course, ensure that he or she is independent within the meaning of the rules of professional conduct of the relevant provincial institute / ordre. The auditors of previously unaffiliated companies recently acquired by the issuer would not be required to have been independent with respect to the issuer prior to the date of acquisition. In such a case, the auditor would modify the customary wording along the following lines:

"As of [date of the auditor's most recent report on the financial statements of the entity] and throughout the period covered by the financial statements on which I reported, I was independent with respect to [the entity] within the meaning of the [Rules of Professional Conduct / Code of Ethics] of [name of provincial institute / ordre]."

#### **Shelf and PREP prospectuses**

.095 In certain circumstances, an issuer of securities may file a "shelf" prospectus to permit continuous or delayed offerings over an extended period, or a post-receipt effective pricing ("PREP") prospectus to permit pricing of the offering after the prospectus has been filed. At the time the prospectus is filed, the issuer may not yet have selected an underwriter. In these circumstances, the legal counsel designated to represent the underwriting group may ask the auditor to facilitate the offering process by carrying out procedures and issuing a comfort letter at the time the prospectus is filed. However, as noted in paragraph [7200.030](#), only underwriters can determine what is sufficient for their purposes, and the auditor would therefore not accede to the request.

.096 The auditor should not issue a comfort letter until the underwriter (or leader of the underwriting group) has been selected and has specified the procedures to be performed. [JAN. 2001 \* ]

#### **DUE DILIGENCE MEETINGS**

- .097 Paragraph [7200.004](#) refers to the civil liability imposed by Canadian securities legislation on underwriters and others associated with an offering document such as a prospectus that contains a misrepresentation, and the 'reasonable investigation' that an underwriter conducts in order to develop a due diligence defence.
- .098 In an exempt offering such as a private placement, made either with or without an offering document, the liability of an underwriter is not subject to the same statutory civil liability provisions that apply in respect of a prospectus offering. In these circumstances, however, it is customary for the underwriter to perform an investigation (or due diligence), which may be similar to that which it would perform in connection with a prospectus offering.
- .099 *If the auditor is asked to attend a due diligence meeting, but has not been engaged to be involved with the offering pursuant to AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section [7150](#), or when there is no offering document, to perform the procedures set out in paragraph [7200.107](#), the auditor should advise the issuer in writing that because he or she has not been engaged to perform the procedures required in order to be associated with the proposed offering, he or she does not consent to the use of his or her report in connection with the proposed offering, declines to attend the due diligence meeting, and disclaims any responsibility with respect to the securities offering. [Example O](#) illustrates such a letter. [APRIL 2013 \* ]*

#### **Assistance to a party that does not have a due diligence defence**

- .100 As explained in paragraph [7200.008](#), the auditor would not agree to attend a due diligence meeting with a party that does not have a due diligence defence without first obtaining a representation letter in satisfactory form asserting that the requesting party is knowledgeable with respect to a due diligence investigation, and is or will be performing such an investigation. [Example P](#) illustrates a representation letter from the requesting party.
- .101 *Before agreeing to participate in a due diligence meeting with a party that does not have a due diligence defence, the auditor should obtain a representation letter from the requesting party stating that:*
- (a) *the requesting party is knowledgeable with respect to a due diligence investigation;*
  - (b) *the requesting party 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; and*
  - (c) *no potential investors or representatives of potential investors in the securities being offered will be present at the due diligence meeting. [MAR. 2005 \* ]*
- .102 *Unless the auditor has received a satisfactory representation letter from a requesting party that does not have a due diligence defence, the auditor should not agree to attend a due diligence meeting, and should consider writing to the requesting party stating that:*
- (a) *the auditor does not accept a duty of care to anyone on the basis of his or her audit report for purposes of the proposed transaction; and*
  - (b) *the auditor does not agree to be associated with the proposed offering and disclaims any responsibility with respect to it.*

[Example Q](#) illustrates a letter that the auditor might issue in these circumstances. [MAR. 2005 \* ]

#### **When there is an offering document**

- .103 As part of its "reasonable investigation" of the disclosures in an offering document, the underwriter and its legal counsel frequently request a due diligence meeting with senior officers of the issuer, the auditor, and the issuer's legal counsel, at which these parties are requested to respond to specific questions. A due diligence meeting provides the underwriter with an opportunity to obtain information that it has determined to be necessary to fulfill its responsibilities. Because the auditor is normally able to assist the underwriter, it is desirable for the issuer to engage the auditor in response to the underwriter's request. The questions asked at the meeting may relate to the business of the issuer, information contained in the offering document, the audit engagement, financial reporting, corporate governance and other matters of interest to the underwriter.
- .104 AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section [7150](#), sets forth the appropriate professional standards when an auditor is involved with an offering document and requires the auditor to perform certain procedures before consenting to the use of his or her audit report in connection with the offering. Consequently, when the auditor has been engaged to be involved with an offering document pursuant to Section 7150, the auditor would normally have a basis on which to answer appropriate questions from the underwriter in a due diligence meeting.
- .105 *An auditor who has been requested to attend a due diligence meeting relating to an offering document should agree to participate in such a meeting only when he or she has been engaged to be involved in the offering in accordance with AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section [7150](#). [APRIL 2013 \* ]*

#### **When there is no offering document**

- .106 Under certain prospectus exemptions, no offering document is required or prepared, and all that the issuer and the underwriter prepare for presentation to prospective investors is a term sheet, or in some cases only a subscription agreement. When the offering is to be made without an offering document, the auditor will not have been engaged to perform the procedures required under AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section [7150](#); however, the

auditor could be engaged to perform substantially similar procedures, as set out in paragraph [7200.107](#). The auditor performs these procedures to ensure that his or her knowledge of the issuer is up to date, and to provide a current basis on which to answer the underwriter's questions.

.107 *When no offering document is prepared, an auditor who has been requested to take part in a due diligence meeting with an underwriter should participate in such a meeting only when he or she has been engaged to perform the following procedures:*

- (a) *complete the audit of any financial statements on which the auditor is to report prior to the offering of the securities;*
- (b) *review the most recent year-to-date unaudited financial statements issued in the current year; 18*
- (c) *perform subsequent events review procedures from the date of the most recent auditor's report to the date of the meeting or as close thereto as is reasonable and practicable, which includes obtaining appropriate written representations from management;*
- (d) *obtain an updated response letter from the issuer's legal counsel; and*
- (e) *read the term sheet and/or subscription agreement prepared for presentation to prospective investors. [MAR. 2005 \* ]*

**The auditor's participation in a due diligence meeting**

.108 *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.* In addition to engaging the auditor to perform the procedures required by paragraph [7200.105](#) or [7200.107](#), management would consent to the auditor's participation in the meeting. Management would usually undertake to be represented in the meeting, and would provide 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 would normally confirm the terms of the engagement by letter, and request acknowledgment and acceptance by management and/or the audit committee. [Appendix 2](#) in AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section 7150, or when there is no offering document, [Example R](#) in Section 7200, illustrates such a letter. [APRIL 2013 \* ]

.109 *When management has engaged the auditor to participate in a due diligence meeting, and the auditor has complied with the other Recommendations in this Section, the auditor should communicate to the underwriter that:*

- (a) *any information provided is confidential information of the issuer and is to be used only with the consent of the issuer;*
- (b) *participation in a due diligence meeting does not change the auditor's duty of care, which is to the entity by which the auditor has been engaged, and not to the underwriter;*
- (c) *the underwriter does not acquire any rights against the auditor as a result of the auditor's attendance or answers to questions at the due diligence meeting, other than as a result of the auditor's willful misconduct, negligence or failure to act in good faith in responding to appropriate questions asked of the auditor by the underwriter;*
- (d) *neither the audit nor the auditor's responses to the underwriter's questions should be taken to supplant other due diligence inquiries and procedures that the underwriter should undertake for the purpose of the underwriter's investigation in connection with the securities offering or for any other purpose; and*
- (e) *the audit of the issuer's financial statements was not planned or conducted in contemplation of the proposed offering of securities and may not be appropriate for the underwriter's purposes.*

*In addition, if management has imposed any limitation on the auditor's freedom to address specific matters in answering the underwriter's questions, the auditor should identify such matters to the underwriter.* The auditor may make this communication orally or in writing. If the communication is made orally, the auditor would document the communication in his or her working papers. [Example S](#) illustrates the auditor's letter of understanding to an underwriter. [MAR. 2005 \* ]

.110 The underwriter may hold two or more due diligence meetings before the offering becomes final. If the auditor has been engaged to perform but has not completed the procedures required either by AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section [7150](#), or by this Section, the auditor may nevertheless wish to participate in a due diligence meeting. However, because the auditor's procedures are incomplete, the auditor needs to exercise care to ensure that he or she does not provide potentially misleading answers to the underwriter's questions.

.111 *When the auditor is requested to participate in a due diligence meeting and has been engaged to perform but has not completed the appropriate procedures, the auditor should state clearly, before responding to questions at the meeting, that he or she has not completed the appropriate procedures, and that the responses given are subject to change. [MAR. 2005 \* ]*

.112 The auditor would normally request, and the underwriter may agree to provide in advance of the meeting, a list of the questions addressed to the auditor. The auditor may wish to meet with management to inform them of the auditor's intended responses.

- .113 The auditor would confine his or her comments in the meeting to matters properly relating to the audit engagement and to work undertaken in connection with the offering of securities. It is essential that comments be restricted to what the auditor would be prepared to put in writing, and such a communication could be made only if it met the standards set out in the Recommendations in the CPA Canada Handbook – Assurance. The auditor would not comment on matters primarily involving discussion and analysis of the results of operations and financial position of the entity, unless this is the subject of a separate assurance engagement performed by the auditor. The auditor would generally decline to answer questions such as inquiries as to details within the accounts, questions about the aggressiveness of the entity's accounting policies or income tax practices, questions as to the adequacy of the entity's internal control (unless the entity's internal control has been the subject of a separate assurance engagement) or questions as to the adequacy of the entity's insurance coverage (except in relation to the fairness of presentation of the financial statements). Any questions on such matters are properly addressed to management, and would be responded to by management. Accordingly, the auditor would normally request that management be represented at the due diligence meeting when the auditor responds to the underwriter's questions.
- .114 *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 of securities;*
  - (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 audit 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 that have had or may in future have an effect on the entity's financial statements.* [MAR. 2005 \*]
- .115 Generally, no formal minutes of the meeting are prepared. Accordingly, the auditor would document the relevant questions and answers in his or her working papers. The auditor may wish to consider providing a written version of the questions and answers to the issuer's management and the underwriter.
- .116 As noted in paragraph [7200.037](#), underwriters sometimes request that the auditor provide assurance, based on a reading of the preliminary offering document (or a draft of it), that he or she has no reason to believe that the document "is not presented fairly" or "contains a misrepresentation". In a due diligence meeting, underwriters may ask for assurance that nothing has come to the auditor's attention, other than what has been disclosed, that would be of interest to them. For the reasons given in paragraph 7200.037, the auditor would decline to give such assurance. [Example N](#) provides guidance as to the manner in which the auditor might respond to these and other requests in a due diligence meeting.
- .117 *In a due diligence meeting, the auditor should not provide assurance as to the adequacy for the underwriter's purposes of the disclosures made in the meeting. When the offering is made by an offering document such as a prospectus or offering memorandum, the auditor should not provide any form of assurance relating to the offering document as a whole.* [MAR. 2005 \*]
- .118 *In a due diligence meeting, the auditor should not provide any assurance, positive or negative, on any matter, such as the adequacy of the entity's internal control, unless that matter has been the subject of a separate assurance engagement performed in accordance with [CSAE 3000](#), Attestation Engagements Other than Audits or Reviews of Historical Financial Information.* [JUNE 30, 2017 \*]
- .119 As noted in paragraph [7200.014](#), there may be circumstances in which the auditor has a reasonable basis to believe that the disclosure made by the issuer to the underwriter may constitute a misrepresentation.
- .120 *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. If the matter is not resolved as a result of these discussions, the auditor should inform the issuer and the underwriter that he or she does not consent to the use of his or her audit report and disclaims any responsibility in connection with the offering.* [MAR. 2005 \*]
- .121 In a due diligence meeting, the auditor may be requested to provide the underwriter with a statement similar to the one provided in the auditor's consent as contemplated in AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, paragraph [7150.23\(c\)\(i\)](#).
- .122 *The auditor should refrain from providing a statement that the auditor has no reason to believe that there are any misrepresentations, and explain that:*
- (a) *the statement in the auditor's consent is provided only because of a regulatory requirement to do so;*
  - (b) *the auditor makes no representations regarding questions of legal interpretation; and*
  - (c) *the procedures that the auditor performed under Canadian generally accepted standards for an auditor's consent to the use of a report of the auditor included in an offering document do not constitute an engagement to audit or review the offering document as a whole.* [APRIL 2013 \*]

## **APPENDIX**

### **EXAMPLES OF LETTERS AND DUE DILIGENCE QUESTIONS AND COMMENTS**

#### **Purpose of the examples**

The following examples are provided for illustrative purposes only.

Examples A to M and O to S are intended to be used only as a guide to wording that may be used, and are not intended to suggest standard wording to be used in any particular set of circumstances. The contents of the letters will vary according to the nature of the information in the prospectus or other offering document, and the procedures agreed between the underwriter, the auditor and the issuer. When preparing such a letter, the auditor will need to ensure that the letter meets the requirements of this Section.

Example N provides illustrations of questions commonly asked in due diligence meetings, together with comments discussing the auditor's response.

#### **Summary of examples**

Example A — Letter to an underwriter on a prospectus

Example B — Letter to an underwriter on a short form prospectus

Example C — "Bring-down" letter to an underwriter

Example D — Representation letter to an auditor from an underwriter or agent that does not have a statutory due diligence defence, that requests a comfort letter with respect to a private placement of securities

Example E — Letter to the agent in a private placement or other exempt offering, including the required representations from the agent

Example F — Letter to a requesting party that has not provided a satisfactory representation to the auditor as referred to in paragraph 7200.024, denying responsibility to the requesting party

Example G — Letter to a requesting party that has not provided a satisfactory representation to the auditor when the auditor is prepared to be associated with the offering document, as referred to in paragraphs 7200.022–027.

Example H — Head-note for a draft comfort letter

Example I — Issuer's representation letter

Example J — Wording when there is a reportable change, increase or decrease in a financial statement item

Example K — Comments where pages of an offering document are attached to the comfort letter and the auditor uses symbols to indicate procedures and results

Example L — Letter to an underwriter on a prospectus, from the former auditor of an issuer

Example M — Reference to a secondary auditor

Example N — Examples of questions commonly asked in due diligence meetings, and comments on the auditor's response

Example O — Letter from the auditor to the issuer denying consent to the use of the auditor's name or report in connection with the offering [and declining to issue a comfort letter / attend a due diligence meeting], when the auditor has not been engaged to perform procedures under Section 7150 or Section 7200

Example P — Representation letter to an auditor from an underwriter or agent that does not have a statutory due diligence defence, that requests the auditor to attend a due diligence meeting with respect to a private placement of securities

Example Q — Letter to a party requesting the auditor's attendance at a due diligence meeting, when the requesting party has not provided a satisfactory representation to the auditor as referred to in paragraph 7200.102

Example R — Engagement letter relating to a private placement or other exempt offering — no offering document

Example S — Letter of understanding from the auditor to the underwriter or agent when the auditor has been engaged to perform procedures under Section 7200, and is asked to attend a due diligence meeting

#### **EXAMPLE A**

##### **Letter to an underwriter on a prospectus**

June 22, 20X4

To: Securities Dealer Limited (the underwriter)

The Board of Directors, A Limited

Dear Sirs / Mesdames:

This letter is written to you at the request of management of A Limited (the Company), pursuant to the terms of an underwriting agreement dated June 22, 20X4 between the Company and Securities Dealer Limited.

I have audited the balance sheets of A Limited as at December 31, 20X3 and 20X2, and the statements of income, retained earnings and cash flows for each of the years in the three-year period ended December 31, 20X3, included in the prospectus dated June 22, 20X4 relating to the offering of [description of security] of A Limited filed by the Company under the Securities Act[s] of [province(s)] (the Act[s]); my report dated February 23, 20X4 with respect to these financial statements is also included in the prospectus. 1a

In connection with the prospectus:

1. I am the auditor of the Company and am independent within the meaning of the Rules of Professional Conduct of [name of provincial institute / ordre].
2. In my opinion, the financial statements audited by me and included in the prospectus comply as to form in all material respects with the published accounting requirements of the Act[s] and the related regulations.
3. I have not audited any financial statements of the Company as at any date or for any period subsequent to December 31, 20X3. Although I have performed an audit for the year ended December 31, 20X3, the purpose, and therefore the scope, of the audit was to enable me to express my opinion on the financial statements as at December 31, 20X3 and for the year then ended, but not on the financial statements for any interim period within that year. Therefore, I am unable to and do not express any opinion on the unaudited interim balance sheet as at March 31, 20X4, and the unaudited interim statements of income, retained earnings and cash flows for the three-month periods ended March 31, 20X4 and 20X3 included in the prospectus, or on the financial position, results of operations or cash flows as of any date or for any period subsequent to December 31, 20X3.
4. With respect to the offering document, please note that I make no representations regarding questions of legal interpretation. Further, please note that the procedures I performed under Canadian generally accepted standards for an auditor's consent to the use of a report of the auditor included in an offering document do not constitute an engagement to audit or review the offering document as a whole. It is not my objective, nor am I able, to perform an engagement to audit or review the offering document as a whole. I am also unable to provide assurance on the other information in the offering document as I have not been engaged to audit or review the other information. Accordingly, management, those charged with governance, underwriters and other parties should not rely on my consent to mitigate their respective responsibilities.
5. For purposes of this letter, I have read the 20X4 minutes of meetings of the Shareholders, the Board of Directors, and [appropriate committees, if any] of the Company as set out in the minute books to June 17, 20X4, officials of the Company having advised me that the minutes of all such meetings 2a through that date were set out therein, and have performed other procedures to June 17, 20X4 (my work did not extend to the period from June 18, 20X4 to June 22, 20X4 inclusive) as follows:
  - (a) For the three-month periods ended March 31, 20X4 and 20X3:
    - (i) I have performed a review, in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor, of the unaudited balance sheet as at March 31, 20X4, and the unaudited statements of income, retained earnings and cash flows for the three-month periods ended March 31, 20X4 and 20X3 included in the prospectus. Such an interim review consists principally of applying analytical procedures to financial data, and making inquiries of and having discussions with persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements. An interim review does not provide assurance that I would become aware of any or all significant matters that might be identified in an audit.
    - (ii) I have made inquiries of certain officials of the Company who have responsibility for financial and accounting matters as to whether the unaudited interim financial statements referred to under item 5(a)(i) comply as to form in all material respects with the published accounting requirements of the Act[s] and the related regulations.
  - (b) For the period from April 1, 20X4 to May 31, 20X4, I have:
    - (i) read the unaudited interim financial statements 3a of the Company for April and May of 20X4 and 20X3 provided to me by the Company, officials of the Company having advised me that no such financial statements as at any date or for any period subsequent to May 31, 20X4 were available; and
    - (ii) made inquiries of certain officials of the Company who have responsibility for financial and accounting matters concerning whether the unaudited financial statements referred to under item 5(b)(i) are stated, in all material respects, on a basis consistent with that of the audited financial statements included in the prospectus.

The foregoing procedures do not constitute an audit performed in accordance with Canadian generally accepted auditing standards, nor would they necessarily reveal matters of significance with respect to the comments in the following paragraph. I make no representations regarding the sufficiency of the foregoing procedures for your purposes.

6. Based on the results of the foregoing procedures:

- (a) nothing came to my attention that caused me to believe:

- (i) that any material modification needs to be made for the unaudited interim financial statements described in item 5(a) to be in accordance with the [applicable financial reporting framework]; 4a or
- (ii) that such unaudited interim financial statements do not comply as to form in all material respects with the published accounting requirements of the Act[s] and the related regulations;

(b)

- (i) I did not find any change in the share capital or long-term debt of the Company or any decreases in net current assets or net assets at May 31, 20X4, as compared with amounts shown in the March 31, 20X4 unaudited interim balance sheet included in the prospectus; and
- (ii) for the period from April 1, 20X4 to May 31, 20X4, I did not find any decreases, as compared with the corresponding period in the preceding year, in net sales or in the total or per-share amounts of net income;

except in all instances for changes or decreases that the prospectus discloses have occurred or may occur.

7. As mentioned under item 5(b), Company officials have advised me that no interim financial statements as at any date or for any period subsequent to May 31, 20X4 are available; accordingly, the procedures performed by me with respect to changes in financial statement items after May 31, 20X4 have, of necessity, been even more limited than those with respect to the periods referred to in items 5(a) and 5(b). I have made inquiries of certain officials of the Company who have responsibility for financial and accounting matters as to whether:

- (a) there was any change at June 17, 20X4 in share capital or long-term debt of the Company or any decreases in net current assets or net assets, as compared with amounts shown in the March 31, 20X4 unaudited interim balance sheet included in the prospectus; or
- (b) for the period from June 1, 20X4 to June 17, 20X4, there were any decreases, as compared with the corresponding period in the preceding year, in net sales or in the total or per-share amounts of net income.

On the basis of these inquiries and my reading of the minutes as described in item 5, I did not find any such change or decrease, except in all instances for changes or decreases that the prospectus discloses have occurred or may occur. 5a

8. For purposes of this letter, I have also read the following details set out in the prospectus on the pages indicated. 6a

Reference	Page	Description
(a)	5	"Capitalization". The amounts under the captions "Amount Outstanding as at March 31, 20X4", "Amount Outstanding as at May 31, 20X4" and "Amount Outstanding as at May 31, 20X4, as Adjusted".
(b)	10	"History and Business — Sales and Marketing". The table following the first paragraph.
(c)	21	"Compensation of Directors and Officers". The dollar amounts under the headings "Salary", "Bonus" and "All Other Compensation", and the number of shares optioned under the heading "Options Granted".
(d)	32	"Management's Discussion and Analysis — Summary Financial Information". The amounts in the table of net sales, net income, net income per common share, total assets, long-term obligations, shareholders' equity and cash dividends declared per common share for each of the years in the three-year period ended December 31, 20X3.

9. My audit of the financial statements for the periods referred to in the second paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements taken as a whole. 7a For neither the periods referred to therein nor any other period did I perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions such as those enumerated above, and, accordingly, I express no opinion thereon.
10. However, for purposes of this letter, I have performed the following additional procedures, which were applied as indicated with respect to the details enumerated in item 8.

Reference	Procedures and Results
(a)	I compared the dollar amounts listed under the captions "Amount Outstanding as at March 31, 20X4", "Amount Outstanding as at May 31, 20X4" and "Amount Outstanding as at May 31, 20X4, as Adjusted" with balances in the appropriate accounts in the Company's general ledger, and found them, with the exception of the amounts shown under the caption "Amount Outstanding as at May 31, 20X4, as Adjusted" for "Bank Indebtedness — Current" and "Debt — Sinking Fund Debentures, Series B" to be in agreement. I deducted from the amount shown for "Bank Indebtedness — Current" under the caption "Amount Outstanding as at May 31, 20X4", the amount intended to be applied to reduce current bank debt as indicated under the caption "Use of Proceeds" on page 7 of the prospectus, and found the amount shown for "Bank Indebtedness — Current" under the caption "Amount Outstanding as at May 31, 20X4, as Adjusted" to be arithmetically correct. However, I make no comment as to the reasonableness of the "Use of Proceeds" or whether such use will actually take place. I compared the amount shown for "Debt — Sinking Fund Debentures, Series B" to the amount shown under the caption "Aggregate Proceeds of the Issue" in the distribution spread on the cover page of the prospectus, and found them to be in agreement.
(b)	I compared the amounts of government sales, commercial sales and total sales with the balances in the appropriate accounts in the Company's general ledger for the respective fiscal years and for the unaudited interim periods, and found them to be in agreement. However, I make no comment regarding the appropriateness of such classification or the manner in which such classification has been made. I recalculated the percentages of such amounts of government sales and commercial sales to total sales for the respective fiscal years and for the unaudited interim periods, and found them, when rounded to the nearest tenth of a percentage point, to be arithmetically correct.
(c)	I compared the dollar amounts to an analysis prepared by the Company, and found them to be in agreement. I added the amounts shown in the analysis and found the totals to be arithmetically correct. I compared the amounts of remuneration for salaries and bonuses for each individual listed in the analysis to the corresponding amounts shown by the individual employee earnings records for the year 20X3, and found them to be in agreement. I compared the dollar amounts of other compensation for each individual listed to the general ledger account for directors' fees, and found them to be in agreement. I compared the share options granted to the minutes of a meeting of the Board of Directors, and found them to be in agreement. However, I make no comment as to the completeness or appropriateness of the Company's determination of what constitutes executive compensation or employees to be included for purposes of the regulatory disclosure requirements on executive compensation.
(d)	I compared the amounts of net sales, net income, net income per common share and cash dividends declared per common share for each of the years in the three-year period ended December 31, 20X3 to the audited financial statements in the prospectus, and found them to be in agreement. I compared the amounts of total assets, long-term obligations and shareholders' equity at December 31, 20X3 and 20X2 to the audited financial statements in the prospectus, and the amounts at December 31, 20X1 to the corresponding amounts in the audited financial statements in the Company's Annual Report to Shareholders for 20X1, and found them to be in agreement.

11. I make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in item 10; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above. Further, I have addressed myself solely to the foregoing data in the prospectus as set out in item 8, and I make no representations regarding the adequacy of disclosures or regarding whether any material facts have been omitted.
12. This letter is solely for the information of the addressees and to assist the underwriters in conducting and documenting their investigation of the affairs of the Company in connection with the offering of the securities covered by the prospectus, and it is not to be used, circulated, quoted or otherwise referred to within or without the underwriting group for any other 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 prospectus or any other document, except that reference may be made to it in the underwriting agreement or in any list of closing documents pertaining to the offering of the securities covered by the prospectus.

Yours very truly,

.....  
PRACTITIONER

**EXAMPLE B**

**Letter to an underwriter on a short form prospectus**

June 22, 20X4

To: Securities Dealer Limited (the underwriter)

The Board of Directors, B Limited

Dear Sirs / Mesdames:

This letter is written to you at the request of management of B Limited (the Company), pursuant to the terms of an underwriting agreement dated June 22, 20X4 between the Company and Securities Dealer Limited.

I have audited the balance sheets of B Limited as at December 31, 20X3 and 20X2 and the statements of income, retained earnings and cash flows for the years then ended, incorporated by reference in the short form prospectus dated June 22, 20X4 relating to the offering of [description of security] of B Limited (the prospectus), filed by the Company under the Securities Act[s] of [province(s)] (the Act[s]); my report dated February 23, 20X4 with respect to these financial statements is also incorporated by reference in the prospectus.

In connection with the prospectus: 8a

1. I am the auditor of the Company and am independent within the meaning of the Rules of Professional Conduct of [name of provincial institute / ordre].
2. In my opinion, the financial statements audited by me and incorporated by reference in the prospectus comply as to form in all material respects with the applicable accounting requirements of the Act[s] and the related regulations.
3. I have not audited any financial statements of the Company as at any date or for any period subsequent to December 31, 20X3. Although I have performed an audit for the year ended December 31, 20X3, the purpose, and therefore the scope, of the audit was to enable me to express my opinion on the financial statements as at December 31, 20X3 and for the year then ended, but not on the financial statements for any interim period within that year. Therefore, I am unable to and do not express any opinion on the unaudited interim balance sheet as at March 31, 20X4, and the unaudited interim statements of income, retained earnings and cash flows for the three-month periods ended March 31, 20X4 and 20X3 incorporated by reference in the prospectus, or on the financial position, results of operations or cash flows as of any date or for any period subsequent to December 31, 20X3.

With respect to the offering document, please note that I make no representations regarding questions of legal interpretation. Further, please note that the procedures I performed under Canadian generally accepted standards for an auditor's consent to the use of a report of the auditor included in an offering document do not constitute an engagement to audit or review the offering document as a whole. It is not my objective, nor am I able, to perform an engagement to audit or review the offering document as a whole. I am also unable to provide assurance on the other information in the offering document as I have not been engaged to audit or review the other information.

Accordingly, management, those charged with governance, underwriters and other parties should not rely on my consent to mitigate their respective responsibilities.

4. For purposes of this letter, I have read the 20X4 minutes of meetings of the Shareholders, the Board of Directors, and [appropriate committees, if any] of the Company as set out in the minute books to June 17, 20X4, officials of the Company having advised me that the minutes of all such meetings 9a through that date were set out therein, and have performed other procedures to June 17, 20X4 (my work did not extend to the period from June 18, 20X4 to June 22, 20X4 inclusive) as follows:

- (a) For the three-month periods ended March 31, 20X4 and 20X3:
- (i) I have performed a review, in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor, of the unaudited balance sheet as at March 31, 20X4, and the unaudited statements of income, retained earnings and cash flows for the three-month periods ended March 31, 20X4 and 20X3 incorporated by reference in the prospectus. Such an interim review consists principally of applying analytical procedures to financial data, and making inquiries of and having discussions with persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements. An interim review does not provide assurance that I would become aware of any or all significant matters that might be identified in an audit.
  - (ii) I have made inquiries of certain officials of the Company who have responsibility for financial and accounting matters as to whether the unaudited interim financial statements referred to under item 5(a)(i) comply as to form in all material respects with the published accounting requirements of the Act[s] and the related regulations.
- (b) For the period from April 1, 20X4 to May 31, 20X4, I have:
- (i) read the unaudited interim financial statements 10a of the Company for April and May of 20X4 and 20X3 provided to me by the Company, officials of the Company having advised me that no such financial statements as at any date or for any period subsequent to May 31, 20X4 were available; and
  - (ii) made inquiries of certain officials of the Company who have responsibility for financial and accounting matters concerning whether the unaudited financial statements referred to under item 5(b)(i) are stated, in all material respects, on a basis consistent with that of the audited financial statements incorporated by reference in the prospectus.
- The foregoing procedures do not constitute an audit performed in accordance with Canadian generally accepted auditing standards, nor would they necessarily reveal matters of significance with respect to the comments in the following paragraph. I make no representations regarding the sufficiency of the foregoing procedures for your purposes.
6. Based on the results of the foregoing procedures:
- (a) nothing came to my attention that caused me to believe:
    - (i) that any material modification needs to be made for the unaudited interim financial statements described in item 5(a) to be in accordance with the [applicable financial reporting framework]; or
    - (ii) that such unaudited interim financial statements do not comply as to form in all material respects with the published accounting requirements of the Act[s] and the related regulations; and
  - (b)
    - (i) I did not find any change in the share capital or long-term debt of the Company or any decreases in net current assets or net assets at May 31, 20X4, as compared with amounts shown in the March 31, 20X4 unaudited interim balance sheet incorporated by reference in the prospectus; and
    - (ii) for the period from April 1, 20X4 to May 31, 20X4, I did not find any decreases, as compared with the corresponding period in the preceding year, in net sales or in the total or per-share amounts of net income;
- except in all instances for changes or decreases that the prospectus discloses have occurred or may occur.
7. As mentioned under item 5(b), Company officials have advised me that no interim financial statements as at any date or for any period subsequent to May 31, 20X4 are available; accordingly, the procedures performed by me with respect to changes in financial statement items after May 31, 20X4 have, of necessity, been even more limited than those with respect to the periods referred to in items 5(a) and 5(b). I have made inquiries of certain Company officials who have responsibility for financial and accounting matters as to whether:
- (a) there was any change at June 17, 20X4 in share capital or long-term debt of the Company or any decreases in net current assets or net assets, as compared with amounts shown in the March 31, 20X4 unaudited interim balance sheet incorporated by reference in the prospectus; or
  - (b) for the period from June 1, 20X4 to June 17, 20X4, there were any decreases, as compared with the corresponding period in the preceding year, in net sales or in the total or per-share amounts of net income.
- On the basis of these inquiries and my reading of the minutes as described in item 5, I did not find any such change or decrease, except in all instances for changes or decreases that the prospectus discloses have occurred or may occur. 11a

8. This letter is solely for the information of the addressees and to assist the underwriters in conducting and documenting their investigation of the affairs of the Company in connection with the offering of the securities covered by the prospectus, and it is not to be used, circulated, quoted or otherwise referred to within or without the underwriting group for any other 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 prospectus or any other document, except that reference may be made to it in the underwriting agreement or in any list of closing documents pertaining to the offering of the securities covered by the prospectus.

Yours very truly,

.....  
PRACTITIONER

**EXAMPLE C**

**"Bring-down" letter to an underwriter**

July 10, 20X4

To: Securities Dealer Limited (the underwriter)

The Board of Directors, C Limited

Dear Sirs / Mesdames:

I refer to my letter of June 22, 20X4 relating to the prospectus of C Limited (the Company) dated June 22, 20X4 covering the offering of [description of security] of C Limited. I reaffirm as of the date hereof (and as though made on the date hereof) all statements made in that letter except that, for purposes of this letter:

1. the reading of minutes described in item 5 of that letter has been carried out through July 5, 20X4 (the new cut-off date);
2. the procedures and inquiries covered in item 5 of that letter were carried out to July 5, 20X4 (my work did not extend to the period from July 6, 20X4 to July 10, 20X4 inclusive);
3. the period covered in item 5(b) of that letter is changed to the period from April 1, 20X4 to June 30, 20X4, officials of the Company having advised me that no such financial statements as of any date or for any period subsequent to June 30, 20X4 were available;
4. the references to May 31, 20X4 in item 6(b) of that letter are changed to June 30, 20X4; and
5. the references to May 31, 20X4, June 1, 20X4 and June 17, 20X4 in item 7 of that letter are changed to June 30, 20X4, July 1, 20X4 and July 5, 20X4 respectively.

This letter is solely for the information of the addressees and to assist the underwriters in conducting and documenting their investigation of the affairs of the Company in connection with the offering of the securities covered by the prospectus, and it is not to be used, circulated, quoted or otherwise referred to within or without the underwriting group for any other 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 prospectus or any other document, except that reference may be made to it in the underwriting agreement or in any list of closing documents pertaining to the offering of the securities covered by the prospectus.

Yours very truly,

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PRACTITIONER

**EXAMPLE D**

**Representation letter to an auditor from an underwriter or agent that does not have a statutory due diligence defence, that requests a comfort letter with respect to a private placement of securities**

[Date]

To: The Auditor

Dear Sir / Madam:

[Requesting party], as principal or agent, in the offering of [description of security] to be issued by D Limited, will be reviewing certain information relating to D Limited that will be [included / incorporated by reference] in the offering document [description of the document, if appropriate], which may be delivered to investors and used by them as a basis for their investment decision. This review process, applied to the information relating to the issuer, [is/will be] substantially consistent with the due diligence review process that we would

perform if this offering of securities were being made under the Securities Act of one of the provinces of Canada. We are knowledgeable with respect to the due diligence review process that would be performed if this offering of securities were being made under the Securities Act of [province].

We understand that you have been engaged by D Limited to issue a comfort letter to us, and to attend a due diligence meeting and answer certain questions we may wish to ask you. We hereby request that you deliver to us a comfort letter concerning the financial statements of the issuer [and certain statistical and other data included in the offering document], and that you attend a due diligence meeting with us. We shall contact you to identify the procedures we wish you to follow [and the form we wish the comfort letter to take]. We shall also provide you with the timing of, and questions to be asked at, the due diligence meeting. We confirm that no potential investors or representatives of potential investors in the securities being offered will be present at the due diligence meeting.

Yours very truly,

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[Requesting party]

**EXAMPLE E**

**Letter to the agent in a private placement or other exempt offering, including the required representations from the agent**

June 22, 20X4

To: Securities Dealer Limited (the agent)

The Board of Directors, E Limited

Dear Sirs / Mesdames:

This letter is written to you at the request of management of E Limited (the Company),

pursuant to the terms of an agency agreement dated June 22, 20X4 between the Company and Securities Dealer Limited. This letter is furnished in reliance upon your representation to me that:

- (a) you are knowledgeable with respect to the due diligence process that would be performed if this offering of securities were being carried out pursuant to the Securities Act of [province] (the Act); and
- (b) in connection with the offering of [description of security], the review process you have performed is substantially consistent with the due diligence review process that you would have performed if this offering of securities were being carried out pursuant to the Act.

I have audited the balance sheets of E Limited as at December 31, 20X3 and 20X2, and the statements of income, retained earnings and cash flows for each of the years in the three-year period ended December 31, 20X3, included in the offering memorandum dated June 22, 20X4 relating to the sale and issue of [description of security] of E Limited; my report dated February 23, 20X4 with respect to these financial statements is also included in the offering memorandum. 12a

In connection with the offering memorandum: 13a

1. I am the auditor of the Company and am independent within the meaning of the Rules of Professional Conduct of [name of provincial institute / ordre].
2. I have not audited any financial statements of the Company as at any date or for any period subsequent to December 31, 20X3. Although I have performed an audit for the year ended December 31, 20X3, the purpose, and therefore the scope, of the audit was to enable me to express my opinion on the financial statements as at December 31, 20X3 and for the year then ended, but not on the financial statements for any interim period within that year. Therefore, I am unable to and do not express any opinion on the unaudited interim balance sheet as at March 31, 20X4, and the unaudited interim statements of income, retained earnings and cash flows for the three-month periods ended March 31, 20X4 and 20X3 included in the offering memorandum or on the financial position, results of operations or cash flows as of any date or for any period subsequent to December 31, 20X3.
3. For purposes of this letter, I have read the 20X4 minutes of meetings of the Shareholders, the Board of Directors, and [appropriate committees, if any] of the Company as set out in the minute books to June 17, 20X4, officials of the Company having advised me that the minutes of all such meetings 14a through that date were set out therein, and have performed other procedures to June 17, 20X4 (my work did not extend to the period from June 18, 20X4 to June 22, 20X4 inclusive) as follows:
  - (a) I have performed a review, in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor, of the unaudited balance sheet as at March 31, 20X4, and the unaudited statements of income, retained earnings and cash flows for the three-month periods ended March 31,

20X4 and 20X3. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements. An interim review does not provide assurance that I would become aware of any or all significant matters that might be identified in an audit.

- (b) For the period from April 1, 20X4 to May 31, 20X4, I have:

- (i) read the unaudited interim financial statements 15a of the Company for April and May of 20X4 and 20X3 provided to me by the Company, officials of the Company having advised me that no such financial statements as at any date or for any period subsequent to May 31, 20X4 were available; and
- (ii) made inquiries of certain officials of the Company who have responsibility for financial and accounting matters concerning whether the unaudited financial statements referred to under item 3(b)(i) are stated, in all material respects, on a basis consistent with that of the audited financial statements in the offering memorandum.

The foregoing procedures do not constitute an audit performed in accordance with Canadian generally accepted auditing standards, nor would they necessarily reveal matters of significance with respect to the comments in the following paragraph. I make no representations regarding the sufficiency of the foregoing procedures for your purposes.

4. Based on the results of the foregoing procedures:

- (a) nothing came to my attention that caused me to believe that any material modification needs to be made for the unaudited interim financial statements described in item 3(a) to be in accordance with the [applicable financial reporting framework]; and
- (b) (i) I did not find any change in the share capital or long-term debt of the Company or any decreases in net current assets or net assets at May 31, 20X4, as compared with amounts shown in the March 31, 20X4 unaudited interim balance sheet in the offering memorandum; and
  - (ii) for the period from April 1, 20X4 to May 31, 20X4, I did not find any decreases, as compared with the corresponding period in the preceding year, in net sales or in the total or per-share amounts of net income;

except in all instances for changes or decreases that the offering memorandum discloses have occurred or may occur.

5. As mentioned under item 3(b), Company officials have advised me that no interim financial statements as at any date or for any period subsequent to May 31, 20X4 are available; accordingly, the procedures performed by me with respect to changes in financial statement items after May 31, 20X4 have, of necessity, been even more limited than those with respect to the periods referred to in items 3(a) and 3(b). I have made inquiries of certain Company officials who have responsibility for financial and accounting matters as to whether:

- (a) there was any change at June 17, 20X4 in share capital or long-term debt of the Company or any decreases in net current assets or net assets, as compared with amounts shown in the March 31, 20X4 unaudited interim balance sheet in the offering memorandum; or
- (b) for the period from June 1, 20X4 to June 17, 20X4, there were any decreases, as compared with the corresponding period in the preceding year, in net sales or in the total or per-share amounts of net income.

On the basis of these inquiries and my reading of the minutes as described in item 3, I did not find any such change or decrease, except in all instances for changes or decreases that the offering memorandum discloses have occurred or may occur. 16a

6. I have no responsibility to update this letter for events and circumstances occurring after June 17, 20X4.

7. This letter is for the information of the addressees and to assist the agent solely in connection with its due diligence inquiries relating to the offering memorandum conducted in its capacity as agent and not as investor. The letter is not to be used, circulated, quoted or otherwise referred to for any other purpose, including but not limited to the purchase or sale of securities, nor is it to be referred to in whole or in part in the offering memorandum or any other document, except that reference may be made to it in the agency agreement or in any private list of closing documents pertaining to the offering of the securities covered by the offering memorandum.

Yours very truly,

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PRACTITIONER

EXAMPLE F

**Letter to a requesting party that has not provided a satisfactory representation to the auditor as referred to in paragraph [7200.024](#), denying responsibility to the requesting party**

May 15, 20X4

To: [Requesting party]

Dear Sir / Madam:

Re: F Limited

I acknowledge receipt of your letter of [date] in which you state your intention to rely on the audited financial statements of F Limited for the [period] ended [date] and my report thereon dated [date] in connection with [description of transaction].

As the auditor of F Limited, I was appointed by the Shareholders to perform an audit and report to them. The objective of my audit was to form an opinion whether the financial statements, which are the responsibility of management, present fairly, in all material respects, the financial position of the Company as at [balance sheet date] and the results of its operations and its cash flows for the [period] then ended in accordance with the [applicable financial reporting framework]. My audit was planned and performed for this purpose only and only the Shareholders of the Company as a group are entitled to rely on my report.

I do not know what factors you regard as being significant in relation to the transaction that you propose to undertake [and any future monitoring thereof]. Therefore, my audit of the financial statements has not necessarily addressed such factors. I therefore cannot issue any letter that assumes responsibility to you in respect of my audit report on which you could reasonably rely, and I disclaim any assumption of responsibility for any reliance by you on the report or the financial statements to which the report relates.

If you were to require me to investigate the affairs of F Limited for your particular purposes, I could do so, but only with the express consent of the directors of the Company and within the relevant regulatory parameters. I would naturally charge a fee for any such services provided. I would also have to be satisfied that conducting a special engagement for your purposes will not create a conflict between my resulting duty to you and my duty to F Limited and its Shareholders.

I also note that any report issued to you as a result of additional services provided would be issued solely for your use and would not be suitable for distribution to or use by any other party.

Yours very truly,

.....  
PRACTITIONER

#### EXAMPLE G

**Letter to a requesting party that has not provided a satisfactory representation to the auditor when the auditor is prepared to be associated with the offering document, as referred to in paragraphs [7200.022-027](#)**

June 22, 20X4

To: [Requesting party]

The Board of Directors, G Limited

Dear Sirs / Mesdames:

This letter is written to you at the request of management of G Limited (the Company), pursuant to the terms of [description of agreement] dated [date] between the Company and [requesting party or other appropriate person or entity].

I have audited the balance sheets of the Company as at December 31, 20X3 and 20X2, and the statements of income, retained earnings, and cash flows for each of the years in the three-year period ended December 31, 20X3, included in the offering memorandum dated June 22, 20X4 relating to the offering of [description of security] of G Limited; my report dated February 23, 20X4 with respect to these financial statements is also included in the offering memorandum. 17a

As the auditor of the Company, I was appointed by the Shareholders to perform an audit and report to them on the Company's financial statements. The objective of my audit was to form an opinion whether the financial statements, which are the responsibility of management, present fairly, in all material respects, the financial position of the Company, the results of its operations and its cash flows in accordance with the [applicable financial reporting framework]. My audit was planned and performed for this purpose only, and only the Shareholders of the Company as a group are entitled to rely on my report. In these circumstances, I disclaim any responsibility for reliance by you on my report or on the financial statements to which the report relates.

I have not audited any financial statements of the Company as at any date or for any period subsequent to December 31, 20X3. Although I have performed an audit for the year ended December 31, 20X3, the purpose, and therefore the scope, of the audit was to enable me to express my opinion on the financial statements as at December 31, 20X3 and for the year

then ended, but not on the financial statements for any interim period within that year. Therefore, I am unable to and do not express any opinion on the unaudited interim balance sheet as at March 31, 20X4, and the unaudited interim statements of income, retained earnings and cash flows for the three-month periods ended March 31, 20X4 and 20X3 included in the offering memorandum or on the financial position, results of operations or cash flows as of any date or for any period subsequent to December 31, 20X3.

1. At your request, I have read the 20X4 minutes of meetings of the Shareholders, the Board of Directors, and [appropriate committees, if any] of the Company as set out in the minute books to June 17, 20X4, officials of the Company having advised me that the minutes of all such meetings 18a through that date were set out therein, and have performed other procedures to June 17, 20X4 (my work did not extend to the period from June 18, 20X4 to June 22, 20X4 inclusive) as follows:
  - (a) For the three-month periods ended March 31, 20X4 and 20X3:
    - (i) I have read the unaudited balance sheet of the Company as at March 31, 20X4, and the unaudited statements of income, retained earnings and cash flows for the three-month periods ended March 31, 20X4 and 20X3 included in the offering memorandum, compared the dollar amounts therein to the Company's accounting records, and found them to be in agreement.
    - (ii) I have made inquiries of certain officials of the Company who have responsibility for financial and accounting matters concerning whether the unaudited financial statements referred to under item 1(a)(i) are stated, in all material respects, on a basis consistent with that of the audited financial statements included in the offering memorandum. Those officials stated that the unaudited financial statements are, in all material respects, in accordance with the [applicable financial reporting framework] applied on a basis consistent with that of the audited financial statements.
  - (b) For the period from April 1, 20X4 to May 31, 20X4:
    - (i) I have read the unaudited interim financial statements 19a of the Company for April and May of 20X4 and 20X3 provided to me by the Company, compared the dollar amounts therein to the Company's accounting records, and found them to be in agreement. Officials of the Company advised me that no financial statements as at any date or for any period subsequent to May 31, 20X4 were available.
    - (ii) I have made inquiries of certain officials of the Company who have responsibility for financial and accounting matters concerning whether:
      - (1) the unaudited financial statements referred to under item 1(b)(i) are stated, in all material respects, on a basis consistent with that of the audited financial statements included in the offering memorandum;
      - (2) as at May 31, 20X4, there was any change in share capital or long-term debt, or decrease in net current assets or net assets of the Company, as compared with amounts shown in the March 31, 20X4 unaudited balance sheet included in the offering memorandum; and
      - (3) for the period from April 1, 20X4 to May 31, 20X4, there were any decreases, as compared with the corresponding period in the preceding year, in net sales or in the total or per-share amounts of net income.
- (c) As mentioned under item 1(b), Company officials have advised me that no interim financial statements as at any date or for any period subsequent to May 31, 20X4 are available; accordingly, the procedures performed by me with respect to changes in financial statement items after May 31, 20X4 have, of necessity, been even more limited than those with respect to the periods referred to in items 1(a) and 1(b). I have made inquiries of certain Company officials who have responsibility for financial and accounting matters as to whether:
  - (i) there was any change at June 17, 20X4 in share capital or long-term debt of the Company or any decreases in net current assets or net assets, as compared with amounts shown in the March 31, 20X4 unaudited interim balance sheet in the offering memorandum; or
  - (ii) for the period from April 1, 20X4 to June 17, 20X4, there were any decreases, as compared with the corresponding period in the preceding year, in net sales or in the total or per-share amounts of net income.

Those officials stated that:

- (i) as at June 17, 20X4, there was no change in share capital or long-term debt, and no decrease in net current assets or net assets of the Company, as compared with amounts shown in the March 31, 20X4 unaudited interim balance sheet included in the offering memorandum; and
- (ii) for the period from April 1, 20X4 to June 17, 20X4, there were no decreases, as compared with the corresponding period in the preceding year, in net sales or in the total or per-share amounts of net income.

2. At your request, I have read the following items in the offering memorandum on the pages indicated. 20a

Reference	Page	Description
(a)	5	"Capitalization". The amounts under the captions "Amount Outstanding as at March 31, 20X4", "Amount Outstanding as at May 31, 20X4" and "Amount Outstanding as at May 31, 20X4, as Adjusted".
(b)	10	"History and Business — Sales and Marketing". The table following the first paragraph.
(c)	21	"Compensation of Directors and Officers". The dollar amounts under the headings "Salary", "Bonus" and "All Other Compensation", and the number of shares optioned under the heading "Awards Securities under Options, Granted".
(d)	32	"Management's Discussion and Analysis — Summary Financial Information". The amounts in the table of net sales, net income, net income per common share, total assets, long-term obligations, shareholders' equity and cash dividends declared per common share for each of the years in the three-year period ended December 31, 20X3.

3. My audit of the financial statements for the periods referred to in the second paragraph of this letter comprised audit tests and procedures I deemed necessary for the purpose of expressing an opinion on such financial statements taken as a whole. 21a For none of the periods referred to therein, nor for any other period, did I perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions such as those enumerated above, and, accordingly, I express no opinion thereon.
4. However, at your request, I have performed the following additional procedures, which were applied as indicated with respect to the details enumerated in item 2.

Reference	Procedures and Results
(a)	I compared the dollar amounts listed under the captions "Amount Outstanding as at March 31, 20X4", "Amount Outstanding as at May 31, 20X4" and "Amount Outstanding as at May 31, 20X4, as Adjusted" with balances in the appropriate accounts in the Company's general ledger, and found them, with the exception of the amounts shown under the caption "Amount Outstanding as at May 31, 20X4, as Adjusted" for "Bank Indebtedness — Current" and "Debt — Sinking Fund Debentures, Series B" to be in agreement. I deducted from the amount shown for "Bank Indebtedness — Current" under the caption "Amount Outstanding as at May 31, 20X4", the amount intended to be applied to reduce current bank debt as indicated under the caption "Use of Proceeds" on page 7 of the offering memorandum, and found the amount shown for "Bank Indebtedness — Current" under the caption "Amount Outstanding as at May 31, 20X4, as Adjusted" to be arithmetically correct. However, I make no comment as to the reasonableness of the "Use of Proceeds" or whether such use will actually take place. I compared the amount shown for "Debt — Sinking Fund Debentures, Series B" to the amount shown under the caption "Aggregate Proceeds of the Issue" in the distribution spread on the cover page of the offering memorandum, and found them to be in agreement.
(b)	I compared the amounts of government sales, commercial sales and total sales with the balances in the appropriate accounts in the Company's general ledger for the respective fiscal years and for the unaudited interim periods, and found them to be in agreement. However, I make no comment regarding the appropriateness of such classification or the manner in which such classification has been made. I recalculated the percentages of such amounts of government sales and commercial sales to total sales for the respective

- fiscal years and for the unaudited interim periods, and found them, when rounded to the nearest tenth of a percentage point, to be arithmetically correct.
- (c) I compared the dollar amounts to an analysis prepared by the Company, and found them to be in agreement. I compared the amounts of remuneration for salaries and bonuses for each individual listed in the analysis to the corresponding amounts shown by the individual employee earnings records for the year 20X3, and found them to be in agreement. I compared the dollar amounts of other compensation for each individual listed to the general ledger account for directors' fees, and found them to be in agreement. I compared the share options granted to the minutes of a meeting of the Board of Directors, and found them to be in agreement.
- (d) I compared the amounts of net sales, net income, net income per common share and cash dividends declared per common share for each of the years in the three-year period ended December 31, 20X3 to the audited financial statements in the offering memorandum, and found them to be in agreement. I compared the amounts of total assets, long-term obligations and shareholders' equity at December 31, 20X3 and 20X2 to the audited financial statements in the offering memorandum, and the amounts at December 31, 20X1 to the corresponding amounts in the audited financial statements in the Company's Annual Report to Shareholders for 20X1, and found them to be in agreement.
5. It should be understood that I have no responsibility for establishing (and did not establish) the scope and nature of the procedures enumerated in items 1 through 4 above; rather, the procedures enumerated therein are those [requesting party] asked me to perform. Accordingly, I make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in items 1 through 4. Also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above as set forth in the offering memorandum. Further, I have addressed myself solely to the foregoing data and make no representations regarding the adequacy of disclosures or whether any material facts have been omitted. This letter relates only to the financial statement items and other financial information specified above and does not extend to any financial statement of the Company taken as a whole.
6. The foregoing procedures do not constitute an audit performed in accordance with Canadian generally accepted auditing standards. Had I carried out additional procedures or had I performed an audit or review of the Company's March 31, April 30, or May 31, 20X4 and 20X3 financial statements in accordance with standards set out in the CPA Canada Handbook – Assurance, other matters might have come to my attention that would have been reported to you.
7. These procedures should not be taken to supplant any additional inquiries or procedures that you would undertake in your consideration of the proposed offering.
8. I have no responsibility to update this letter for events and circumstances occurring after June 17, 20X4.
9. This letter is for the information of the addressees and to assist [requesting party] in your inquiries relating to the offering of the securities covered by the offering memorandum, and it is not to be used, circulated, quoted or otherwise referred to for any other 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 memorandum or any other document, except that reference may be made to it in any private list of closing documents pertaining to the offering of the securities covered by the offering memorandum.

Yours very truly,

.....  
PRACTITIONER

**EXAMPLE H**

**Head-note for a draft comfort letter**

This draft is furnished solely for the purpose of indicating the form of letter that we would expect to be able to furnish [underwriter] in response to its 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 [underwriter], it is our understanding that the procedures outlined in this draft letter are those they wish us to follow. Unless [underwriter] 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.

**EXAMPLE I**

**Issuer's representation letter**

[Date] 22a

To: The Auditor

Dear Sir / Madam:

In connection with the [offering document] relating to [description of security] to be issued by I Limited, we certify to the best of our knowledge and belief that during the period from December 31, 20X1 to date, no events have occurred which have a material effect on the consolidated financial statements as of December 31, 20X1 and for the three years then ended or which should be disclosed in order to keep those statements from being misleading. 23a

With respect to the unaudited consolidated financial statements as at September 30, 20X2 and for the nine-month periods ended September 30, 20X2 and 20X1, we certify to the best of our knowledge and belief that:

- (a) such financial statements were prepared in accordance with accounting principles and practices consistent in all material respects with those followed in the preparation of the audited financial statements contained in the [offering document], except as set forth in the offering document; 23a
- (b) such financial statements present fairly the information purported to be shown thereby; and
- (c) no material adjustment of such financial statements is required, and no adjustments other than those necessary for fair presentation of the results for those periods have been reflected therein.

Also, to the best of our knowledge and belief, except in all instances for changes that the [offering document] discloses have occurred or may occur:

- (d) at [date] 22a there has not been any change in capital stock or long-term debt of the Company and subsidiaries consolidated or any decreases in consolidated net current assets or net assets, as compared with amounts shown in the September 30, 20X2 unaudited interim balance sheet included in the [offering document]; 23a and
- (e) for the period September 30, 20X2 to [date], 22a there has been no decrease, as compared with the corresponding period in the preceding year, in consolidated net sales or in the total or per-share amounts of net income. 23a

Further, we confirm that:

- (f) no financial statements of the Company are available as at any date or for any period subsequent to [date]; 22a and
- (g) the minutes of all meetings of the Shareholders, the Board of Directors, and the [names of committees] of the Board of Directors are entered up to [date] in the minute books, and no such meetings have been held since that date. 23a

Yours very truly,

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As to (g) above:

Chief Executive Officer

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Secretary

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Chief Financial Officer

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**EXAMPLE J**

**Wording when there is a reportable change, increase or decrease in a financial statement item**

This example relates to a situation in which the auditor becomes aware of a reportable change, increase or decrease in a specified financial statement item on which he or she has been asked to comment. The example assumes the same facts as in [Example A](#), except for the decreases set out in the changes to item 5(b) below.

5. (b)(i) I did not find any change in the share capital or long-term debt of the Company or any decreases in net current assets or net assets at May 31, 20X4, as compared with amounts shown in the March 31, 20X4 unaudited interim balance sheet in the prospectus, except that the unaudited interim balance sheet as at May 31, 20X4, which was provided to me by management, showed a decrease from March 31, 20X4 in net assets as follows:

(\$ thousands)	Assets	Liabilities	Net assets
March 31, 20X4	\$6,631	\$3,922	\$2,709
May 31, 20X4	6,589	4,013	<u>2,576</u>
<b>Decrease</b>			\$133
<hr/>			

- (ii) For the period from April 1, 20X4 to May 31, 20X4, I did not find any decreases, as compared with the corresponding period in the preceding year, in net sales or in the total or per-share amounts of net income, except that the unaudited interim statements of income for April and May of 20X4, when compared to the unaudited interim statements of income for April and May of 20X3, all as provided to me by management, showed a decrease in net sales as follows:

(\$ thousands)	20X4	20X3	Decrease
Net sales, April and May	\$7,917	\$8,027	\$ 110

6. As mentioned in item 4(b), Company officials have advised me that no interim financial statements as at any date or for any period subsequent to May 31, 20X4 are available; accordingly, the procedures performed by me with respect to changes in financial statement items after May 31, 20X4 have, of necessity, been even more limited than those with respect to the periods referred to in items 4(a) and 4(b). I have made inquiries of certain Company officials who have responsibility for financial and accounting matters as to whether:

- (a) there was any change at June 17, 20X4 in share capital or long-term debt of the Company or any decreases in net current assets or net assets, as compared with amounts shown in the March 31, 20X4 unaudited interim balance sheet in the prospectus; or
- (b) for the period from June 1, 20X4 to June 17, 20X4, there were any decreases, as compared with the corresponding period in the preceding year, in net sales or in the total or per-share amounts of net income.

On the basis of these inquiries and my reading of the minutes as described in item 4, I did not find any such change or decrease, except that I have been informed by officials of the Company that they believe that there continues to be a decrease in net assets as at June 17, 20X4, as compared to net assets as at March 31, 20X4, and that net sales for the period from June 1, 20X4 to June 17, 20X4 continue at a lower level than in the corresponding period of 20X3 [or whatever other disclosure may be appropriate], and except in all instances for changes or decreases that the prospectus discloses have occurred or may occur.

#### EXAMPLE K

##### Comments where pages of an offering document are attached to the comfort letter and the auditor uses symbols to indicate procedures and results

The following example illustrates an alternative treatment to that demonstrated in items 7 and 9 of [Example A](#) and items 2 and 4 of [Example G](#), showing how an auditor can document procedures performed on numerous statistics included in an offering document.

7. For purposes of this letter, I have also read the items identified by you on the attached copy of the prospectus, and have performed the following procedures, which were applied as indicated with respect to the symbols below.

\* Compared the amount to the corresponding amount in the audited consolidated financial statements of K Limited for the year ended December 31, 20X3 contained in the prospectus, and found them to be in agreement.

† Compared the amount to the corresponding amount in the unaudited consolidated financial statements of K Limited for the three months ended March 31, 20X4 contained in the prospectus, and found them to be in agreement.

- (x) Compared the amount to the corresponding amount in the consolidation working papers of K Limited as at the date indicated, and found the amount shown in the working papers, when rounded to the nearest thousand dollars, to be in agreement with the amount shown in the prospectus.

- << Compared the amount to the corresponding amount shown in minutes of a meeting of the Board of Directors of K Limited held on March 15, 20X4, and found them to be in agreement.

- = Recalculated, by reference to the shares outstanding as at March 31, 20X4, the shares offered, offering price and estimated expenses of the issue as shown on the cover page of the prospectus, and the Refinancing Agreement, and found the amount shown to be arithmetically correct.

### K Limited Consolidated Capitalization

The following table sets forth the consolidated capitalization of the Company as at December 31, 20X3, as at March 31, 20X4 and as at March 31, 20X4 after giving effect to this offering and to the Refinancing. This table should be read in conjunction with the Consolidated Financial Statements of the Company appearing elsewhere in this prospectus.

	<u>Authorized</u>	Outstanding as at <u>Dec.</u> <u>31, 20X3</u>	Outstanding as at <u>March</u> <u>31, 20X4</u>	Outstanding as at March 31, 20X4 after giving effect to this offering and to the Refinancing	(1), (2)
(\$ thousands)					
<b>Debt</b>					
Current portion of long-term debt and capital leases		\$3,638	*	\$3,819	†
5.25% Sinking Fund Debentures due February 28, 20XX	\$11,500	*	11,500	*	11,500
6% First Mortgage Bonds due June 1, 20XX	11,500	<<	—	—	11,500
Obligations under capital leases (3)		<u>8,554</u>	*	<u>8,347</u>	†
		<u>23,692</u>		<u>23,666</u>	<u>23,666</u>
<b>Minority interest in subsidiary</b>					
Preferred shares		722	x	722	x
Common shares and retained earnings		<u>6,698</u>	x	<u>6,712</u>	x
		<u>7,420</u>		<u>7,434</u>	<u>7,434</u>
<b>Shareholders' equity</b>					
Preferred Shares \$25 par value	100,000 shs.	*			

7% First Preferred Shares	40,000 shs.	<sup>*</sup>	1,000	<sup>*</sup>	1,000	<sup>†</sup>	1,000	<sup>‡</sup>
			(40,000 shs.)	<sup>*</sup>	(40,000 shs.)	<sup>†</sup>	(40,000 shs.)	
Common shares without par value <u>(4)</u>	Unlimited	<sup>*</sup>	12,336	<sup>*</sup>	12,339	<sup>†</sup>	20,887	<sup>‡</sup>
			(4,633,903 shs.)	<sup>*</sup>	(4,633,903 shs.)	<sup>†</sup>	(5,383,903 shs.)	<sup>‡</sup>
Retained earnings		<u>17,538</u>	<u>*</u>	<u>17,690</u>	<u>†</u>	<u>17,650</u>	<u>‡</u>	
		<u>30,874</u>		<u>31,029</u>		<u>38,537</u>		
<b>Total capitalization</b>		\$61,986		\$62,129		\$69,637		
		=====		=====		=====		

- (1) See "Refinancing" with respect to the refinancing of long-term debt.  
 (2) Assumes the underwriters' over-allotment option is not exercised.  
 (3) Reference is made to Note X to the consolidated financial statements with respect to commitments under operating leases on real property.  
 (4) An additional 32,400 † common shares are issuable pursuant to options granted to officers and directors of the Company at prices ranging from \$0.50 † to \$0.85 † per share. (see "Options to Purchase Common Shares").

#### EXAMPLE L

##### Letter to an underwriter on a prospectus, from the former auditor of an issuer

June 22, 20X4

To: Securities Dealer Limited (the underwriter)

The Board of Directors, L Limited

Dear Sirs / Mesdames:

This letter is written to you at the request of management of L Limited (the Company), pursuant to the terms of an underwriting agreement dated June 22, 20X4 between the Company and Securities Dealer Limited.

I have audited the balance sheet of L Limited as at December 31, 20X2, and the statements of income, retained earnings and cash flows for the years ended December 31, 20X2 and 20X1, included in the prospectus dated June 22, 20X4 relating to the offering of [description of security] of L Limited filed by the Company under the Securities Act[s] of [province(s)] (the Act[s]); my report dated February 25, 20X3 with respect to these financial statements is also included in the prospectus.

In connection with the prospectus:

- I was the auditor of the Company for the years ended December 31, 20X1 and 20X2 and as of February 25, 20X3, and throughout the period covered by the financial statements of the Company on which I reported, I was independent within the meaning of the Rules of Professional Conduct of [name of provincial institute / ordre].
- In my opinion, the financial statements audited by me and included in the prospectus comply as to form in all material respects with the published accounting requirements of the Act[s] and the related regulations.
- I have not audited any financial statements of the Company as at any date or for any period subsequent to December 31, 20X2. Therefore, I am unable to and do not express any opinion on any financial statement of the Company as of any date or for any period subsequent to December 31, 20X2.

4. For purposes of this letter, I have received a letter from ABC & Co., Chartered Accountants, the present auditors of the Company, informing me that based on their audit of the Company's financial statements for the year ended December 31, 20X3 and their review work covering the period from January 1 to June 17, 20X4, nothing has come to their attention that would require adjustment to the Company's balance sheet as at December 31, 20X2 and the related statements of income, retained earnings and cash flows for the years ended December 31, 20X2 and 20X1.
5. For purposes of this letter, I have read the following details set out in the prospectus on the pages indicated. 24a

Reference	Page	Description
(a)	10	"History and Business — Sales and Marketing". The table following the first paragraph.
(b)	32	"Management's Discussion and Analysis — Summary Financial Information". The amounts in the table of net sales, net income, net income per common share, total assets, long-term obligations, shareholders' equity and cash dividends declared per common share for the years ended December 31, 20X1 and 20X2.

6. My audit of the financial statements for the periods referred to in the second paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements taken as a whole. For neither the periods referred to therein nor any other period did I perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions such as those enumerated above, and, accordingly, I express no opinion thereon.
7. However, for purposes of this letter, I have performed the following additional procedures, which were applied as indicated with respect to the details enumerated in item 5.

Reference	Procedures and Results
(a)	I compared the amounts of government sales, commercial sales and total sales with the balances in the appropriate accounts in the Company's general ledger for the years ended December 31, 20X1 and 20X2, and found them to be in agreement. However, I make no comment regarding the appropriateness of such classification or the manner in which such classification has been made. I recalculated the percentages of such amounts of government sales and commercial sales to total sales for the years ended December 31, 20X1 and 20X2, and found them, when rounded to the nearest tenth of a percentage point, to be arithmetically correct.
(b)	I compared the amounts of net sales, net income, net income per common share and cash dividends declared per common share for the years ended December 31, 20X1 and 20X2 to the audited financial statements in the prospectus, and found them to be in agreement. I compared the amounts of total assets, long-term obligations and shareholders' equity at December 31, 20X2 to the audited financial statements in the prospectus, and the amounts at December 31, 20X1 to the corresponding amounts in the audited financial statements in the Company's Annual Report to Shareholders for 20X1, and found them to be in agreement.

8. I make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in item 7; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above. Further, I have addressed myself solely to the foregoing data in the prospectus as set out in item 5, and I make no representations regarding the adequacy of disclosures or regarding whether any material facts have been omitted.
9. This letter is solely for the information of the addressees and to assist the underwriters in conducting and documenting their investigation of the affairs of the Company in connection with the offering of the securities covered by the prospectus, and it is not to be used, circulated, quoted or otherwise referred to within or without the underwriting group for any other 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 prospectus or any other document, except that reference may be made to it in the underwriting agreement or in any list of closing documents pertaining to the offering of the securities covered by the prospectus.

Yours very truly,

.....  
PRACTITIONER

## **EXAMPLE M**

### **Reference to a secondary auditor**

This example may apply when more than one auditor is asked to provide a comfort letter in connection with a prospectus and the principal auditor has obtained a copy of the comfort letter of the other auditor. Assuming that the principal auditor has carried out the necessary procedures in order to rely on the other auditor in reporting on the audit of the audited financial statements and the review of unaudited interim financial statements, no reference to the other auditor is required in relation to these financial statements.

However, the other auditor may have been asked to carry out limited procedures and report results with respect to financial information, statistics or other information pertaining to a division or related Company that appears in the prospectus. When such information is interspersed with similar information on which the principal auditor has been asked to perform procedures, the principal auditor may choose to emphasize that he or she is not associated with the division or related Company information. For this purpose, a sentence such as the following may be added at the end of the introductory wording in item 9 of [Example A](#):

"I performed these procedures only with respect to the consolidated and unconsolidated information of M Limited [and those subsidiary companies of which I am the auditor], and not with respect to the information of [division or related company]."

## **EXAMPLE N**

### **Examples of questions commonly asked in due diligence meetings, and comments on the auditor's response**

The auditor would agree to answer questions at a due diligence meeting only when the auditor has been engaged to perform the procedures required by either AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section [7150](#), or paragraph [7200.107](#), and when the underwriter, agent or other party requesting the meeting either:

- (a) has a due diligence defence (see paragraphs [7200.004](#)-[.007](#)); or
- (b) has provided a satisfactory representation letter (see paragraphs [7200.022](#)-[.023](#) and [.100](#)-[.101](#)).

Unless these criteria are met, the auditor would decline to answer any questions raised by the underwriter.

Before participating in a due diligence meeting, the auditor would establish an understanding and agreement with management as required by paragraph [7200.108](#) and communicate to the underwriter the matters set out in paragraph [7200.109](#). This communication may be made in writing, or orally at the beginning of the meeting. An illustration of a written communication is provided as [Example S](#). If the communication is made orally, the auditor would document the communication in his or her working papers.

If the auditor has been engaged to perform, but has not completed, the procedures required by paragraph [7200.105](#) or paragraph [7200.107](#), the auditor would state clearly, before responding to questions at the meeting, that he or she has not completed the appropriate procedures, and that the responses given are subject to change. The auditor would also document the communication in his or her working papers.

The following examples of questions should be read in conjunction with the Recommendations contained in paragraphs [7200.097](#)-[.122](#).

Usually, the auditor's response to questions asked by the underwriter in a due diligence meeting can be brief.

The comments on the questions cited below are more detailed than the responses that would usually be required, and are intended as general guidance about matters the auditor would normally consider in determining a response. The comments are not intended as illustrations of the answer that would be appropriate in every situation.

Questions 1-13 —

Questions the auditor is usually able to answer

Questions 14-19 —

Questions to which the auditor is unable to respond in the terms  
in which they are asked

Questions 20-24 —

Questions properly addressed to management

#### **Questions the auditor is usually able to answer**

Following are a number of questions to which the auditor is usually able to respond, with comments as to the response that might be appropriate.

#### **Question 1**

**How long have you (or your firm) been auditor of the  
issuer?**

Response considerations

This question demands a factual answer. If the auditor (or firm) has been involved for a limited period, he or she may wish to refer to periods, if any, for which a predecessor practice was involved as auditor.

#### Question 2

Response considerations

**Have you read the [draft] offering document as required by your professional standards and the applicable securities legislation [regulations]?**

The auditor is required by professional standards, and frequently by Securities Acts and regulations, to have read the offering document, and could therefore reply in the affirmative. If the question is in fact directed toward gaining assurance that the auditor is prepared to be associated with the offering document, the auditor may wish to state that he or she expects to be in a position to issue a consent to the use of his or her audit report at the time the offering document is completed in final form.

#### Question 3

Response considerations

**Describe the nature and scope of your audit examination and review of the issuer's financial statements included (or incorporated by reference) in the offering document. Were any limitations imposed upon the scope of your audit by management of the issuer or others?**

The auditor would make it clear that the audits covered only the financial statements for the dates and periods referred to in his or her auditor's report. Other financial statements included or incorporated by reference may be unaudited, or may have been reported on by other auditors.

The scope of an audit is set out in the auditor's report:

- An audit is conducted in accordance with generally accepted auditing standards, which require that the auditor plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.
- An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In the normal case, the scope of the audit would enable the auditor to express an opinion without reservation on the

financial statements. If there was any limitation imposed on the scope of the audit, the matter would be dealt with in the auditor's report.

The auditor might be willing to describe the audit procedures performed on certain financial statement elements in forming an opinion on the financial statements as a whole; however, the auditor would make it clear that he or she provides no assurance on these specific items beyond that conveyed by the financial statements.

If there are unaudited financial statements included or incorporated by reference in the offering document, the auditor would refer to the [draft] comfort letter to the underwriter, which describes the nature and scope of the auditor's review.

#### Question 4

**Management has provided us with a list of pending litigation, commitments, contingent liabilities, guarantees and any indebtedness or other off-balance sheet items (a list would be provided to the auditor). In the course of your audit, did you discuss with management or otherwise identify any other items of the same type not included on this list that exceed [an amount provided by the underwriter]?**

#### Response considerations

The auditor could reply that, based on the audit procedures performed, including discussions with management, no other items of the types mentioned came to his or her attention, or discuss any such items that were so identified. The auditor may wish to point out that auditors must rely to a large extent on management, and sometimes on legal counsel, in identifying outstanding contingencies.

If the auditor wishes to ensure that the underwriter understands the procedures auditors apply to contingencies, commitments and other such items, he or she could outline the auditing procedures that are performed in gathering evidence to determine whether any such contingent items require accrual or disclosure in the financial statements, such as:

- review of the issuer's written summary of known and threatened claims;
- discussion with management of contingencies, commitments and other obligations;
- discussion with the issuer's general counsel of all litigation and threatened litigation of which the issuer is aware, including litigation and claims or threatened claims covered by insurance;

- request and receipt from the issuer's principal legal counsel in [locations] of letters regarding claims and threatened or possible claims, as covered by the Joint Policy Statement between the Canadian Professional Accountants of Canada and the Canadian Bar Association;
- search for unrecorded liabilities by a review of disbursements subsequent to period-end and open invoices;
- receipt of written confirmation of obligations from third parties such as banks and lenders;
- receipt of written representations from management;
- review of events that have occurred between the date of the latest audited balance sheet and the date of the auditor's report; and
- review of accounting treatment and disclosure in the financial statements.

#### **Question 5**

**Management has informed us that they do not plan to change any of their significant accounting policies as set forth in note 1 to the financial statements of the issuer. Has management informed you, or had any discussions with you, regarding any change in their accounting policies?**

Response considerations

The auditor may properly respond to these questions. If the auditor is aware of any recent or pending changes in professional recommendations or regulatory requirements that would make a change in the issuer's accounting policies necessary or desirable in the future, he or she would draw attention to such recommendations or requirements.

#### **Question 6**

**Management has informed us that they do not plan any material potential write-downs in the current year. Has management informed you, or had any discussions with you, regarding any potential write-downs in connection with the year-end audit?**

Response considerations

Normally, the auditor can answer this question without difficulty. The auditor may wish to convey to the underwriter that auditors and management usually have an ongoing dialogue with respect to potential future issues, and may choose to identify some of the accounting matters on which discussions have taken place.

The auditor may also wish to refer the underwriter to any measurement uncertainty disclosures in the financial statements, in particular any disclosures regarding financial statement items where there is a reasonable possibility that the recognized amount of the financial statement item could change by a material amount in the near term.

#### **Question 7**

Response considerations

**How often do you meet with the issuer's audit committee or board of directors, and what are the procedures at and nature of such meetings?**

The auditor would describe the frequency of meetings with the audit committee and, if applicable, the board of directors.

Meetings with the audit committee would generally encompass a review and approval by the committee of the audit plan for the current year and discussion of interim and year-end accounting and financial presentation issues. Following the year end, the committee would generally meet to review the financial statements and recommend their approval by the board of directors. The auditor would indicate whether meetings of the committee were held at the request of the committee or the auditor. Frequently, the auditor is invited to meet privately with the "outside" members of the committee.

Meetings with the board of directors are likely to be less common, and would generally be related to a special assignment undertaken by the auditor, such as delivering a special report, or discussing financing alternatives.

#### **Question 8**

Response considerations

**Do you have full and open access to all materials that you consider necessary to enable you to perform your audit functions?**

It would be expected that the auditor would have full and open access to all necessary materials.

#### **Question 9**

Response considerations

**Discuss your relationship with the issuer's management. Have you had any disagreements with management that have not been resolved to your satisfaction?**

Generally, the auditor would be in a position to state that management was co-operative and provided all of the information and explanations that the auditor required. The auditor may choose to point out that in the course of normal communications with the issuer, the auditor frequently meets with management to discuss emerging accounting issues, and has always been able to resolve the issues with senior management to his or her satisfaction. Otherwise, the auditor would have included a reservation in his or her auditor's report.

In discussing disagreements with management, the auditor might wish to refer to the definition of disagreements contained in National Instrument 51-102 of the Canadian Securities Administrators, in order to focus on issues discussed by personnel of both the auditor and management at a decision-making level.

#### Question 10

**Have there been any significant deficiencies in internal control that you have identified during the course of your audit of the financial statements that were communicated to the audit committee or management committee as required under generally accepted auditing standards that, to the best of your knowledge, have not been acted upon by management?**

##### Response considerations

The auditor would state whether or not significant deficiencies in internal control have been reported to the issuer, and might identify the areas of deficiency. In the course of his or her work related to the offering document, the auditor will have updated his or her understanding of the entity's internal control, and may be in a position to comment on changes that have been effected since the time when the deficiencies were reported. However, the question of management's actions should properly be addressed to, and answered by, management. The auditor is not normally in a position to comment on the effectiveness of any action that has been taken by management to address the internal control deficiencies that have been reported.

In responding to this question, the auditor may also wish to outline the limited nature of his or her review of internal controls in connection with his or her audit of the financial statements, and/or refer to the definition and discussion of "significant deficiency in internal control" contained in [CAS 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management](#), to ensure that there is no misunderstanding by the underwriter of the nature and extent of the auditor's review of internal controls and the type of deficiency that the auditor would consider to be "significant".

#### Question 11

**Other than as disclosed in the offering document, are you aware of any related party transactions involving the issuer that require disclosure in the financial statements under the [applicable financial reporting framework]?**

##### Response considerations

The auditor will likely be able to answer this question in the negative, but would be concerned about any possible related party transactions subsequent to the most recent balance sheet

date that would require financial statement disclosure in the current period.

If the auditor wishes to be sure that the underwriter understands the procedures auditors apply to identify significant related party transactions, he or she may wish to outline the procedures applied, for example, the following:

- preparation of a list of directors, officers and related entities, to be consulted by audit staff when they are reviewing the issuer's transactions;
- receipt of written representations from management regarding related party transactions; and
- review of material contracts entered into during the year.

#### **Question 12**

**Please discuss the most significant areas of audit risk you have encountered in respect of the issuer and how you gained comfort in these areas.**

Response considerations

The auditor might identify the most critical audit areas and issues discussed with the audit committee in the years and periods covered by the financial statements included or incorporated by reference in the offering document. However, it is important that the auditor explain that the assessment of audit risk is concerned with the fairness of presentation of the financial statements in accordance with the [applicable financial reporting framework], and should not be taken to provide comfort on individual elements within the financial statements, or on the absence of other significant business risks that, because of their nature, were not considered by the auditor to constitute areas of significant audit risk.

#### **Question 13**

**Is there anything of which you are aware that would inhibit your delivery, in accordance with generally accepted auditing standards, the appropriate securities requirements and the terms of your engagement, of unqualified reports on the historical financial statements included in the offering document [and any other information audited or reviewed], comfort and consent letters to the securities regulatory authorities, and the comfort letter to the underwriter?**

Response considerations

The auditor would be careful to explain any development (such as a delay in the issuer's providing necessary information, or an

unresolved problem regarding disclosure in the offering document) that might delay the completion of the auditor's work.

**Questions to which the auditor is unable to respond in the terms in which they are asked**

The underwriter may ask questions to which the auditor is unable to respond in the terms in which they are asked. In such circumstances, the auditor may wish to respond by explaining the reasons why he or she is unable to provide the information requested.

Some examples of these types of questions, together with a commentary on how the auditor might respond to the question, are set out below.

**Question 14**

**Based on your reading of the prospectus, have you any reason to believe that it is not fairly presented? (Or, Are you aware of any other matters that should be disclosed in the prospectus? Or, Have you any observations about management's comments, or anything to add to their responses to our questions? Or, Are there any other questions that we should have asked in completing our due diligence investigation? Or, Are there any other items of which you are aware that should be brought to our attention?)**

Response considerations

There is no accepted standard by which the auditor can judge whether a prospectus is fairly presented. Professional standards require that the auditor read the prospectus to obtain satisfaction:

- (a) that the audited financial statements together with the auditor's report and the unaudited interim financial statements that he or she has reviewed are accurately reproduced;
- (b) that information derived from the financial statements is not inconsistent with the financial statements; and
- (c) that other information in the prospectus is consistent with the understanding of the entity and its environment that the auditor has acquired as a result of his or her work.

These procedures would not necessarily disclose material misstatements or omissions in the information included in the offering document. Accordingly, except for financial statement requirements, the auditor is not in a position to make any representations as to completeness or adequacy of disclosures in the prospectus.

The underwriter applies many other considerations in forming an opinion as to what constitutes a fair presentation, but the auditor has no way of knowing what would be of interest to the

### **Question 15**

Response considerations

underwriter. As well, a great deal of the information in a prospectus (and, perhaps, significant omissions) is outside of the knowledge of the auditor.

As noted under Question 2 above, the auditor may wish to state that he or she expects to be in a position to issue a consent to the use of his or her report at the time the offering document is completed in final form.

**Have you read the prospectus, and do you believe there are any misrepresentations in the information therein as a result of your understanding of the issuer and its environment and your audit of the financial statements contained in the prospectus?**

The underwriter may ask this type of question because this type of assurance (in the form of negative assurance) is given in the standard consent letter required by the securities regulatory authorities. The auditor would explain that he or she provides such a letter in this form only because of a statutory requirement to do so, to assist the regulators in carrying out their responsibilities regarding the prospectus. A statutory requirement to report in a specified manner to a particular regulatory body does not imply that it is professionally appropriate to report in a similar manner to other parties: professional assurance standards do not permit the expression of assurance, negative or positive, in such circumstances.

However, as noted above, the auditor may wish to state that he or she expects to be in a position to issue a consent to the use of his or her report at the time the offering document is completed in final form.

### **Question 16**

Response considerations

**Are you aware of any matters that may directly or indirectly affect the value of the securities offered under the prospectus?**

The auditor is not competent to express a view as to matters that may affect the value of securities. This subject is within the province of a securities dealer such as the underwriter.

### **Question 17**

Response considerations

**Are provisions for losses (on, for example, bad debts, inventory obsolescence) adequate?**

An audit is designed to assess the presentation of the financial statements as a whole, and not to provide assurance on individual financial statement items. The auditor determines materiality by reference to the financial statements taken as a whole. The only appropriate answer to the question is that the auditor would not have given an opinion without reservation if

he or she believed that the financial statements were not presented fairly, in all material respects, in accordance with the [applicable financial reporting framework]. The auditor may be willing to describe the audit procedures performed in order to conclude on the adequacy of loss provisions in the context of the audit of the financial statements as a whole.

#### **Question 18**

**Are the accounting policies and methods used by the issuer appropriate? Please comment on the general fairness [adequacy] of the issuer's accounting policies and the presentation of its financial statements. Are these accounting policies consistent with the majority of entities in the same business as the issuer? Would you describe the financial reporting policies of the issuer as conservative / liberal relative to other entities in the industry?**

##### Response considerations

Assuming that the auditor has expressed an opinion without reservation on the issuer's financial statements, he or she would ordinarily be in a position to confirm that the accounting policies and methods used by the issuer are appropriate.

The auditor would advise the underwriter that management has the responsibility for the accurate recording of transactions and the preparation of financial statements in accordance with the [applicable financial reporting framework]. This responsibility includes the selection and application of accounting policies. An audit of the financial statements does not relieve management of its responsibilities. The auditor may consider discussing the alternative accounting policies available under the [applicable financial reporting framework], generally, and in the issuer's industry.

From time to time, the auditor may discuss with the audit committee the quality of various accounting policies, and express a view as to the relative merits of differing methods. The auditor may wish to refer to these discussions. However, in dealing with a third party such as an underwriter, the auditor would be very cautious about answering any question about the relative conservatism of the issuer's accounting policies, as any answer is likely to be based on the auditor's personal experience, and not on any generally accepted criteria.

#### **Question 19**

**What was the extent of your involvement in the preparation of the financial statements and the other financial information in the offering document?**

##### Response considerations

The responsibility for the preparation of financial statements, and also of offering documents, rests with management of the entity. It is the auditor's responsibility to perform an audit or

review of the financial statements and other financial information prepared by management.

**Questions properly addressed to management**

The underwriter may ask questions that are properly addressed to management, rather than the auditor.

**Question 20**

Response considerations

**Are the financial statements for the periods contained in the prospectus of the company accurate in all material respects?**

The auditor would remind the underwriter that the financial statements are the responsibility of the company's management and that this question is best answered by management. The auditor would explain that his or her responsibility as auditor is to express an opinion on the financial statements based on his or her audit. As noted in the auditor's report, it is the auditor's opinion that the financial statements included in the offering document present fairly, in all material respects, the financial position of the company as at [date] and the results of its operations and its cash flows for the years then ended in accordance with the [applicable financial reporting framework].

**Question 21**

Response considerations

**What is the reason for the increase / decrease in [specified financial statement items] in 20X2 as compared to 20X1?**

The auditor's responsibility under generally accepted auditing standards is to form an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with the [applicable financial reporting framework]. A change in the recorded amount of an asset, liability, revenue or expense item from period to period is normally the result of numerous transactions. Management has the responsibility of operating the business, has first-hand knowledge of these transactions, and is in a position to analyze changes. Therefore, any questions as to the reasons for a change in a financial statement item should be addressed to management, and responded to by management. The auditor could comment on management's response only if he or she had carried out a separate assurance engagement on the matters in question, for example, an engagement to audit or review Management's Discussion and Analysis included in the offering document.

**Question 22**

Response considerations

**Please provide us with an assessment [comment on the adequacy] of the company's internal control. Are you satisfied that controls are in place to prepare adequate financial statements? Have you relied upon internal control in performing your audit?**

The auditor would advise the underwriter (preferably, in advance of the meeting) that this question can only be answered

by management, because responsibility for ensuring the adequacy of internal control is part of management's overall responsibility.

The auditor may respond by stating that management's internal control objectives go beyond financial statement objectives. Internal controls relevant to the audit comprise those policies and procedures established and maintained by management that relate to specific financial statement assertions.

The auditor would explain that he or she has a responsibility to obtain an understanding of internal control. This understanding includes understanding the design of controls and whether they have been implemented, but does not extend to evaluating the operating effectiveness of these controls. The auditor only evaluates, and tests, those controls on which he or she plans to rely during the audit. Accordingly, an audit opinion provides no assurance as to the efficiency or effectiveness with which operations, including internal controls, have been conducted.

The auditor may then wish to discuss the extent to which his or her audit approach included reliance on internal controls. The auditor may also wish to point out that these controls would not normally include all of the controls over the preparation of the financial statements; accordingly, the auditor is not in a position to provide any assurance regarding such controls.

Notwithstanding this, the auditor would consider informing the underwriter as to whether he or she identified any significant weaknesses in the issuer's internal control structure that were reported to management.

**Management has informed us that they are not aware of any facts that would give rise to any extraordinary or unusual items appearing in the issuer's financial statements for the current fiscal year. Has management informed you, or had any discussions with you, regarding any such items?**

#### Question 23

Response considerations

Many financial reporting frameworks do not contain definitions, or the concept, of extraordinary or unusual items. In such cases, the auditor is normally not in a position to answer this question.

#### Question 24

**The auditor's consent states that you have no reason to believe that there are any misrepresentations in the information contained in the prospectus that are derived from the financial statements upon which you have reported or that are within your knowledge as a result of your audit of such financial statements. Can you please confirm that**

**you are now satisfied that there are no misrepresentations in the prospectus?**

Response considerations

I cannot confirm that there are no misrepresentations in the prospectus.

The statement in the auditor's consent is made only because of a regulatory requirement to do so. Please note that in making the statement in the auditor's consent, I make no representations regarding questions of legal interpretation. Further, please note that the procedures I performed under Canadian generally accepted standards for an auditor's consent to the use of a report of the auditor included in an offering document do not constitute an engagement to audit or review the offering document as a whole. It is not my objective, nor am I able, to perform an engagement to audit or review the offering document as a whole. I am also unable to provide assurance on the other information in the offering document as I have not been engaged to audit or review the other information. Accordingly, management, those charged with governance, underwriters and other parties should not rely on my consent to mitigate their respective responsibilities.

**EXAMPLE O**

**Letter from the auditor to the issuer denying consent to the use of the auditor's name or report in connection with the offering [and declining to issue a comfort letter / attend a due diligence meeting], when the auditor has not been engaged to perform procedures under Section [7150](#) or Section [7200](#)**

June 22, 20X4

To: The Audit Committee, O Limited

Dear Sirs / Mesdames:

In connection with the Company's proposed offering of securities [description of securities, if appropriate], I have been requested to [consent to the use, in connection with the proposed offering, of my audit report on the Company's annual financial statements for the year ended December 31, 20X3 / provide a comfort letter to Securities Dealer Limited (the agent) / attend a meeting with the agent and their legal counsel, to answer certain questions as part of their investigation for purposes of the offering].

As you know, I was engaged to audit the annual financial statements for the year ended December 31, 20X3, and report thereon to the Shareholders. I completed my audit on [date], and issued my report to the Shareholders on that date. My audit was planned and performed for this purpose only, and only the Shareholders of the Company as a group are entitled to rely on my report.

In order to [issue my consent to the use of my audit report / issue a comfort letter to the agent / answer questions at a meeting with the agent and their legal counsel], my professional standards would require me to review interim financial statements, complete a review of events and transactions subsequent to the completion of my audit, and perform certain other procedures related to the proposed offering. Since I have not been engaged to perform these procedures, I do not consent to the use of my name or report in connection with the proposed offering, and disclaim any responsibility with respect to it. I shall therefore neither issue a comfort letter to the agent nor attend a due diligence meeting with the agent.

Please inform the agent, and any other securities dealers who may be involved, that without being engaged to perform the necessary work I cannot agree to be associated with the proposed offering.

Yours very truly,

.....

PRACTITIONER

**EXAMPLE P**

**Representation letter to an auditor from an underwriter or agent that does not have a statutory due diligence defence, that requests the auditor to attend a due diligence meeting with respect to a private placement of securities**

June 22, 20X4

To: The Auditor

Dear Sir / Madam:

[Requesting party], as principal or agent, in the offering of [description of security] to be issued by P Limited, will be reviewing certain information relating to P Limited. This review process, applied to the information relating to the issuer, [is / will be] substantially consistent with the due diligence review process that we would perform if this offering of securities were being made under the Securities Act of one of the provinces of Canada. We are knowledgeable with respect to the due diligence review process that would be performed if this offering of securities were being made under the Securities Act of [province].

We understand that you have been engaged by P Limited to attend a due diligence meeting and answer certain questions we may wish to ask you. We shall provide you with the timing of, and questions to be asked at, the due diligence meeting. We confirm that no potential investors or representatives of potential investors in the securities being offered will be present at the due diligence meeting.

Yours very truly,

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[Requesting party]

**EXAMPLE Q**

**Letter to a party requesting the auditor's attendance at a due diligence meeting, when the requesting party has not provided a satisfactory representation to the auditor as referred to in paragraph [7200.102](#)**

June 22, 20X4

To: [Requesting party]

Dear Sir / Madam:

Re: Q Limited

I acknowledge receipt of your letter of [date] in connection with [description of the proposed offering]. In your letter you state your intention to rely on the audited financial statements of Q Limited for the [periods] ended [dates] and my report thereon dated [date], and request my attendance at a due diligence meeting in connection with the proposed transaction.

As the auditor of Q Limited, I was appointed by the Shareholders to perform an audit and report to them. The objective of my audit was to form an opinion whether the financial statements, which are the responsibility of management, present fairly, in all material respects, the financial position of the company as at [balance sheet dates] and the results of its operations and its cash flows for the [periods] then ended in accordance with the [applicable financial reporting framework]. My audit was planned and performed for this purpose only, and only the Shareholders of the Company as a group are entitled to rely on my report.

In these circumstances I cannot agree to attend a due diligence meeting or be otherwise associated with the proposed offering. I do not accept a duty of care to anyone on the basis of my audit report for purposes of the proposed transaction, and disclaim any responsibility for reliance by you on my report or on the financial statements to which the report relates.

Yours very truly,

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PRACTITIONER

**EXAMPLE R**

**Engagement letter relating to a private placement or other exempt offering — no offering document**

June 22, 20X4

To: The Audit Committee, R Limited

Dear Sirs / Mesdames:

In connection with the Company's proposed exempt offering of securities [description of securities, if appropriate], I have been engaged to perform a review of the interim financial statements for the current year, a review of events and transactions occurring subsequent to the date of my auditor's report, and certain other procedures related to the offering. The primary purpose of my engagement will be to carry out the applicable procedures set forth in Section [7200](#) of the CPA Canada Handbook – Assurance, *Auditor Assistance to Underwriters and Others*. My procedures are designed to identify subsequent events that may require adjustment to, or disclosure in, the audited annual and/or unaudited interim financial statements. However, management is responsible for identifying events occurring subsequent to the date of the latest audited or unaudited balance sheet filed with securities regulatory authorities that require restatement of the financial statements or disclosure in the financial statements, or through other means such as press releases and/or material change reports.

I understand that the prospective investors will not receive an offering memorandum or an information package that could be considered to constitute an offering memorandum under the Act.

You agree that my interim review report on the unaudited interim financial statements is solely for the use of the Audit Committee and Board of Directors for their assistance in reviewing the interim financial statements, and is not to be used for any other purpose, nor is it to be quoted, referred to or distributed in connection with this offering or in any other document containing the interim financial statements. In accordance with professional standards, my report disclaims responsibility to any third party who may rely on it.

I have been asked to participate in a due diligence meeting with Securities Dealer Limited (the agent) and their legal counsel, to answer certain questions as part of their investigation in connection with a proposed exempt offering of [description of securities] of the Company under the Securities Act of [province] and the related regulations (the Act). I understand that the agent is an experienced underwriter and will be carrying out other procedures it deems appropriate to obtain whatever information it believes is necessary to complete its investigation of the financial affairs of the Company. My audit of the 20X3 financial statements of the Company was not carried out for the purpose of such investigation and my auditor's report on the Company's 20X3 financial statements and the answers that I may give at the due diligence meeting may not be appropriate for that purpose. Accordingly, I make no representations regarding the sufficiency of my audit procedures for the agent's purposes.

In accordance with professional standards, my audit was carried out solely for the purpose of providing me with sufficient appropriate audit evidence to support my opinion on the Company's 20X3 financial statements. There is no assurance that my responses will address all the questions that the agent or the agent's legal counsel may have. You should be aware that there could be sensitive matters that the agent or the agent's legal counsel asks me to address during the due diligence meeting that could affect the outcome of the proposed offering of securities. Unless otherwise instructed by you, I will attempt to answer all questions asked at the due diligence meeting [except for any questions that deal with the following issues [brief description of those items not to be discussed, if any]. You agree that I shall advise the agent of this restriction.]

You acknowledge that I have no responsibility to you if my answers to the questions asked at the due diligence meeting result in termination of, or change in, the proposed transaction, or in misuse of any confidential information discussed at the meeting. You also acknowledge that you have requested me to co-operate in every way with the agent and the agent's legal counsel by answering any questions they may have [except for the matters described in the preceding paragraph].

If the above conforms to your understanding of our arrangements, please sign and return to me the enclosed copy of this letter.

Yours very truly,

.....  
PRACTITIONER

We have read and are in agreement with the arrangements set out above.

R Limited

By \_\_\_\_\_ Date \_\_\_\_\_

**EXAMPLE S**

**Letter of understanding from the auditor to the underwriter or agent when the auditor has been engaged to perform procedures under Section [7200](#), and is asked to attend a due diligence meeting**

June 22, 20X4

To: Securities Dealer Limited (the agent)

[Law firm — the agent's legal counsel]

Dear Sirs / Mesdames:

In connection with the proposed [description of transaction] of S Limited (the Company) by Securities Dealer Limited ("Securities Dealer"), I understand that Securities Dealer wishes to make an investigation of the financial affairs of the Company. In that regard, the Company has requested that I attend a meeting (the "due diligence meeting") at which Securities Dealer and Securities Dealer's legal counsel wish to ask me some questions in connection with my audit of the financial statements of the Company as at and for the year ended December 31, 20X3. I have received authorization from management of the Company to attend the due diligence meeting and to answer questions, except regarding the following issues [brief description of those items not to be discussed, if any].

I understand that Securities Dealer is an experienced underwriter and will be carrying out other procedures it deems appropriate to obtain whatever information it believes is necessary to complete its investigation of the financial affairs of the Company. My audit of the financial statements of the Company as at and for the year ended December 31, 20X3 was not carried out for the purpose of such investigation, and my audit and the answers that I may give at the due diligence meeting may not be sufficient for your purposes. My audit was performed only for the purpose of reporting to the Shareholders of the Company, and only the Shareholders of the Company as a group are entitled to rely on my report.

I have not reported on the Company's financial statements for any period subsequent to December 31, 20X3. My audit of the financial statements of the Company as at and for the year ended December 31, 20X3 was conducted in accordance with Canadian generally accepted auditing standards, the objective of which is to form an opinion on whether the financial statements, which are the responsibility of the Company's management, present fairly, in all material respects, the financial position, results of operations and cash flows of the Company in accordance with the [applicable financial reporting framework]. Under those standards, I have the responsibility, within the inherent limitations of the auditing process, to design my audit to provide reasonable assurance of detecting misstatements that are material to the financial statements, and to exercise due care in the conduct of my audit. The concept of selective testing of the data being audited, which involves judgment regarding both the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Thus, my audit, which is based on the concept of selective testing, is subject to the inherent risk that material misstatements, if they exist, will not be detected. In addition, an audit does not address the possibility that material misstatements may occur in the future. The conduct of an audit requires the application of professional judgment and the assessment of materiality in connection with financial statement assertions.

My audit of the Company's financial statements as at and for the year ended December 31, 20X3 was not planned or conducted in contemplation of the proposed securities offering and may not be appropriate for your purposes. Items of possible interest to Securities Dealer may not have been specifically addressed. Also, because of my use of professional judgment and my assessment of materiality for the purpose of my audit, matters may have existed that would have been assessed differently by Securities Dealer. Among other things, I have not expressed an opinion or other form of assurance on individual account balances, financial amounts or financial information.

My audit and my responses to Securities Dealer's and Securities Dealer's legal counsel's questions should not be taken to supplant other inquiries and procedures that Securities Dealer should undertake for the purpose of satisfying itself regarding the Company's financial condition or for any other purpose in connection with the proposed offering of securities.

I agree to attend and answer questions at the due diligence meeting referred to above on the understanding of the following:

- (a) Any information provided is confidential information of the Company and is to be used only with the consent of the Company.
- (b) My participation in the meeting does not change my duty of care, which is to the Company, and not to Securities Dealer.
- (c) No potential investors or representatives of potential investors in the securities being offered will be present at the due diligence meeting.
- (d) Securities Dealer does not acquire any rights against me as a result of my attendance or answers to questions at the due diligence meeting, other than as a result of my willful misconduct, negligence or failure to act in good faith in responding to appropriate questions that are directed to me.
- (e) The audit and my responses to questions should not be taken to supplant other due diligence inquiries and procedures that Securities Dealer should undertake for the purpose of its investigation in connection with the proposed securities offering or for any other purpose.
- (f) My audit of the Company's financial statements was not planned or conducted in contemplation of the proposed offering and may not be appropriate for the purposes of Securities Dealer.

The information acquired as a result of my attendance and answers to questions at the due diligence meeting should be maintained in confidence and should not be disclosed to any third party (except as otherwise permitted herein) and will be used by Securities Dealer Limited, and those acting on its behalf, only in connection with its evaluation of the proposed securities offering described above. Securities Dealer will show this letter to, and secure the commitment to the provisions of this paragraph by, those acting on its behalf.

Yours very truly,

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PRACTITIONER

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# Footnotes

1. A requesting party other than an underwriter might be the board of directors or the promoter of a securities offering. Where the context requires, references to an underwriter in this Section include such parties that request assistance from the auditor in the form of a comfort letter or attendance at a due diligence meeting. However, the auditor would provide assistance to such a party only in connection with that party's responsibility for ensuring adequate disclosure with respect to the offering, and not in that party's capacity as a potential investor.
2. In Québec, the underwriter is required to certify that to its knowledge the prospectus contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.
3. Similar provisions exist in the United States.
4. Section [7150](#) deals with AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT.
4. See explanation of [effective date](#) at the beginning of this Section.
5. Canadian Standard on Quality Management ([CSQM 1](#), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*)
6. CSQM 1, paragraph [5](#)
7. CSQM 1, paragraph [1](#)
8. CSQM 1, paragraph [14](#)
9. CSQM 1, paragraph [6](#)
10. CSQM 1, paragraph [C16\(a\)](#)
11. [CSQM 2](#), *Engagement Quality Reviews*
12. CSQM 1, paragraph [29](#)
  - \*. See explanation of [effective date](#) at the beginning of this Section.
  - \*. See explanation of [effective date](#) at the beginning of this Section.
  - \*. See explanation of [effective date](#) at the beginning of this Section.
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  - \*. See explanation of [effective date](#) at the beginning of this Section.
13. The rules of professional conduct of the provincial institutes / ordre specify that a member or firm who engages or participates in an engagement to issue a report under an assurance engagement or on the results of applying specified auditing procedures shall be independent such that the member, firm and members of the firm shall be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the professional judgment or objectivity of the member, firm or a member of the firm or which, in the view of a reasonable

observer, would impair the professional judgment or objectivity of the member, firm or a member of the firm. Each provincial institute / ordre also has published official interpretations of this rule setting forth specific circumstances that would be deemed to cause the member not to be in compliance with the objectivity rule.

14. When the offering is made in a jurisdiction in which "independence" is defined in securities law and/or regulations, the auditor may properly refer to his or her independence under such law and/or regulations. For example, in an offering subject to the United States Securities Act of 1933, the auditor would state: "I am an independent public accountant within the meaning of the Act and the applicable rules and regulations thereunder adopted by the SEC."

\*. See explanation of effective date at the beginning of this Section

15. [CAS 315, Identifying and Assessing the Risks of Material Misstatement](#), discusses the following components of internal control:

- (a) the control environment;
- (b) the entity's risk assessment process;
- (c) the entity's process to monitor the system of internal control;
- (d) the information system and communication; and
- (e) control activities.

\*\*. See explanation of [effective date](#) at the beginning of this Section. Editorial change — June 2005.

\*. See explanation of [effective date](#) at the beginning of this Section.

16. [CSRE 2400, Engagements to Review Historical Financial Statements](#)

\*. See explanation of [effective date](#) at the beginning of this Section.

\*. See explanation of [effective date](#) at the beginning of this Section.

\*. See explanation of [effective date](#) at the beginning of this Section.

\*. See explanation of [effective date](#) at the beginning of this Section.

17. This procedure is normally performed by the auditor of Target Limited unless the auditor of Acquirer Limited has audited or reviewed Target Limited's financial statements.

\*. See explanation of [effective date](#) at the beginning of this Section.

\*. See explanation of [effective date](#) at the beginning of this Section.

\*. See explanation of [effective date](#) at the beginning of this Section.

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\*. See explanation of [effective date](#) at the beginning of this Section.

\*. See explanation of [effective date](#) at the beginning of this Section.

18. Performance of a review of unaudited interim financial statements would require the auditor to perform procedures on the related Management Discussion and Analysis in accordance with AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS, Section [7060](#).

- \*. See explanation of effective date at the beginning of this Section.
  - \*. See explanation of [effective date](#) at the beginning of this Section.
  - \*. See explanation of [effective date](#) at the beginning of this Section.
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  - \*. See explanation of [effective date](#) at the beginning of this Section.
  - \*. See explanation of effective date at the beginning of this Section.

1a. When the offering document includes the auditor's review engagement report on unaudited financial statements, wording such as the following would be added to the second paragraph of the auditor's comfort letter to the underwriter:

"I have also reviewed the unaudited balance sheet of the Company as at March 31, 20X4 and the unaudited statements of income, retained earnings and cash flows for the three-month periods ended March 31, 20X4 and 20X3; my report dated May 31, 20X4 is also included in the prospectus."

In such a case, paragraph 6(a)(i) would be deleted.

When the document includes pro forma financial statements together with the auditor's report thereon, wording such as the following would be added:

"I have also read the pro forma balance sheets of A Limited as at March 31, 20X4 and December 31, 20X3 and the pro forma statements of income for the three months ended March 31, 20X4 and for the year ended December 31, 20X3 and have performed certain limited procedures thereon; my report dated May 31, 20X4 with respect thereto is also included in the prospectus."

When the document includes future-oriented financial information upon which the auditor has reported, wording such as the following would be added

"I have also examined the forecasted statement of income of A Limited for the years ending December 31, 20X4 and 20X5; my report dated May 31, 20X4 with respect thereto is also included in the prospectus."

The auditor may refer in the introductory paragraphs of the comfort letter to reports previously issued on: (a) condensed financial statements that are derived from audited financial statements; (b) selected financial data; (c) interim financial statements; (d) pro forma financial information; or (e) future-oriented financial information.

Such references would be to the auditor's reports that were previously issued, and if the reports are not included or incorporated by reference in the prospectus, they may be attached to the comfort letter. When referring to previously issued reports, the auditor would not repeat the reports in the comfort letter or otherwise imply that he or she is reporting as of the date of the comfort letter or assumes responsibility for the sufficiency of the procedures for the underwriter's purposes.

2a. The auditor would discuss with the secretary those meetings for which minutes have not yet been approved. The letter would be modified to identify specifically the minutes of such meetings.

3a. If the interim financial statements are incomplete, wording such as the following would be added: "The financial statements for April and May are incomplete in that they omit the statement of cash flows and other information."

<sup>4a</sup> See footnote 1 to the Appendix.

5a. If the officials consulted are unable to respond fully to the auditor's inquiries, wording such as the following may be used: "On the basis of these inquiries and my reading of the minutes as described in item 5, I did not find any such change in share capital or long-term debt. Officials of the company have advised me that there is no means of determining whether there have been any decreases in net current assets, net assets or net sales, or in the total or per-share amounts of net income as referred to in items 7(a) and 7(b)." The wording would have to be adapted to the circumstances.

6a. As noted in paragraph [7200.076](#), there are a number of alternative ways in which the procedures and results set out here in items 8 and 10 may be presented. An example of a matrix format is provided in [Example K](#).

7a. In the event that the second paragraph of the letter makes reference to report(s) of the auditor other than an audit report, the wording in item 9 would be expanded to include reference to such report(s).

- 8a. Note that while not illustrated in this example, procedures and results with respect to statistics and other information, such as are shown in [Examples A, G](#) and [K](#), may be incorporated into a comfort letter on a short form prospectus.
- 9a. See footnote 2 to the Appendix.
- 10a. See footnote 3 to the Appendix.
- 11a. See footnote 5 to the Appendix.
- 12a. See footnote 1 to the Appendix.
- 13a. Note that, while not illustrated in this example, procedures and results with respect to statistics and other information, such as are shown in [Examples A, G](#) and [K](#), may be incorporated into a comfort letter on a private placement or other exempt offering.
- 14a. See footnote 2 to the Appendix.
- 15a. See footnote 3 to the Appendix.
- 16a. See footnote 5 to the Appendix.
- 17a. See footnote 1 to the Appendix.
- 18a. See footnote 2 to the Appendix.
- 19a. See footnote 3 to the Appendix.
- 20a. See footnote 6 to the Appendix.
- 21a. In the event that the second paragraph of the letter makes reference to report(s) of the auditor other than an audit report, the wording in item 3 above would be expanded to include reference to such report(s).
- 22a. The date of completion of the review of the subsequent period.
- 23a. Any exceptions would be spelled out in the letter.
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- 22a. The date of completion of the review of the subsequent period.
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- 23a. Any exceptions would be spelled out in the letter.
- 22a. The date of completion of the review of the subsequent period.
- 23a. Any exceptions would be spelled out in the letter.
- 24a. As noted in paragraph [7200.076](#), there are a number of alternative ways in which the procedures and results set out here in paragraphs 5 and 7 may be presented. An example of a matrix format is provided in [Example K](#).

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