Appendix 2

(Ref: Para. 26)

**Example** **of** **An** **Unmodified** **Auditor’s** **Report**

##### INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

###### Opinion

We have audited the statement by directors (“the statement”) of [name of franchisor] dated [insert date] [which reflects [name of franchisor] position at [date] and the directors’ declaration of the entity’s solvency] made for the purposes of fulfilling the requirements of Item 21 of Annexure 1 to the *Franchising* *Code* *of* *Conduct*.

In our opinion, the statement dated [insert date], presents fairly, in all material respects, the directors’ opinion pursuant to Item 21 of Annexure 1 to the *Franchising* *Code* *of* *Conduct*, that there are reasonable grounds to believe that [name of franchisor] will be able to pay its debts as and when they fall due over the 12 month period from [date of financial year end].

###### Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor’s* *Responsibilities* *for* *the* *Audit* *of* *the* *Statement* section of our report. We are independent of the franchisor in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code* *of* *Ethics* *for* *Professional* *Accountants* (the Code) that are relevant to our audit of the statement in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

###### Basis of Preparation and Distribution

The statement has been prepared pursuant to Item 21 of Annexure 1 to the Franchising Code of Conduct for distribution to the franchisees and prospective franchisees of [name of franchisor]. We disclaim any assumption of responsibility for any reliance on this audit report or on the statement to which it relates to any other party, or for any purpose other than that for which it was prepared.

###### Directors’ Responsibility for the Statement

The [name of franchisor] directors are responsible for the preparation and fair presentation of the statement as at [date of financial year end] to reflect the position of the franchisor at that date, and the ability of [name of franchisor] to meet their debts as and when they fall due over the 12 month period from that date. This responsibility includes such controls as the directors determine is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

In preparing the statement, directors are responsible for assessing the franchisor’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the franchisor or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the franchisor’s financial reporting process.

###### Auditor’s Responsibilities for the Audit of the Statement

Our objectives are to obtain reasonable assurance about whether the statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the statement.

###### The following information may be provided in an Appendix to the Auditor’s Report

*As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:*

* *Identify and assess the risks of material misstatement in the statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.*
* *Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the franchisor’s internal control.*
* *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.*
* *Conclude on the appropriateness of the directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the franchisor’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to this matter or, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the franchisor to cease to continue as a going concern.*

*We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.*

*We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.*

###### Inherent Limitation

Because of the subjective nature of prospective information required to fulfil the requirements of Item 21 of Annexure 1 to the Franchising Code, the persuasiveness of the evidence available is limited. Prospective information is information about events and/or actions that have not yet occurred and may not occur. It reflects assumptions about future events and is subject to future changes in the business and economic conditions. Whilst evidence is available to support the assumptions on which the directors’ opinion is based, such evidence is future orientated and speculative in nature. As a consequence, actual results are likely to be different from the information on which the audit opinion is based, since anticipated events frequently do not occur as expected or assumed and the variations between the prospective opinion and the actual outcome may be significant.

[Auditor’s signature]

[Auditor’s address]

[Date of the auditor’s report]