Appendix 1

(Ref: Para.35)

Example Engagement letter

The following example engagement letter is for use as a guide only, in conjunction with the considerations described in GS 003, and will need to be varied according to individual requirements and circumstances.

To [Title of Those Charged with Governance]

Section 989B(3) of the *Corporations Act 2001* (the Act) requires an Australian Financial Services Licence (AFSL) holder (AFS Licensee) to lodge with ASIC the auditor’s report on the AFS licensee (Licensee) together with a profit and loss statement and balance sheet (being the audited financial report).

The Act, *Corporations Regulations 2001*, ASIC regulatory documents, ASIC Class Orders and ASIC Legislative Instruments determine the scope of the auditor’s report. Reference to the auditor’s report is also made in the conditions of the AFSL. Currently the required format of the auditor’s report is set out in ASIC form FS71.

You have requested that we conduct an assurance engagement to provide an FS71 report. We are pleased to confirm acceptance and this letter sets out in general terms, our understanding of the terms and objectives of our engagement as auditors of the AFSL of [name of entity] (the Licensee) pursuant to section 989B(3) of the Act. This engagement is a separate engagement from our audit of the annual financial report [and half year review] appointment[s] under the Act.

##### Scope

Our reporting will be in a form consistent with the requirements of ASIC form FS71 which requires:

* Reasonable assurance on compliance with specified provisions of Part 7.8 of the Act (being Divisions 2 to 7, except for section 991A, relating to dealing with client money, property and insurance);
* Reasonable assurance on compliance with sections 981B and 982B of the Act (relating to the control and operation of trust accounts);
* Reasonable assurance that all necessary records, information and explanations for the purpose of the audit report were received;
* A combination of reasonable and limited assurance on compliance with AFSL conditions relating to financial requirements as prescribed by ASIC in regulations, class orders and legislative instruments; and
* A statement that during the performance of our duties as auditors of the Licensee, we have not become aware of any matters referred to in section 990K(2) of the Act during or since the financial year, that we have not previously reported to ASIC.

##### The responsibilities of the auditor

ASIC form FS71 includes a combination of reasonable assurance opinions and limited assurance conclusions on the AFS Licensee’s compliance with AFSL conditions relating to financial requirements as prescribed by ASIC.

* Where we are required to obtain reasonable assurance in relation to the matters in ASIC form FS71, our reasonable assurance procedures will be conducted in accordance with AUASB Standards, and accordingly will include such tests and procedures as we consider necessary in the circumstances. This will involve an examination of the internal controls used by the AFS Licensee to comply with the financial requirements of the AFSL, the specified provisions of Part 7.8 and the control and operation of each account maintained for section 981B or section 982B of the Act.
* Where we are required to obtain limited assurance in relation to the matters in ASIC form FS71, our limited assurance procedures are conducted in accordance with Standards on Assurance Engagements. Limited assurance procedures consists primarily of enquiry about, the operation of the procedures and internal control of the financial risk management system and comparison and other such analytical review procedures as we consider necessary.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our limited assurance engagement is not a reasonable assurance engagement and we will not express a reasonable assurance opinion on the projections and will obtain limited assurance.

##### Inherent Limitations

##### *Internal Controls*

Because of the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. We will not audit the overall internal control structure (including procedures that do not relate to the financial requirements) and no opinion will be expressed as to its effectiveness. A reasonable assurance engagement is not designed to detect all weaknesses in control procedures or all instances of non-compliance with part 7.8 of the Act as it is not performed continuously throughout the period and the tests performed are on a sample basis having regard to the nature and size of the AFS Licensee. Also, projections of any evaluation of the control procedures to future periods are subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

##### *Projections*

The projections prepared by [Management/Those Charged with Governance] in accordance with the cash needs requirements conditions of the AFSL are based upon the achievement of certain economic, operating and developmental assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of projections. Actual results may vary materially from those projections and the variation may be materially positive or negative.

##### Auditor’s obligation to report matters to ASIC

In accordance with section 990K of the Act, if during the course of or in relation to our assurance engagement, we become aware of a matter referred to in section 990K(2) of the Act we are required to lodge a written report to ASIC within 7 days.

##### Responsibility of the Licensee

The [Title of Those Charged with Governance] of the Licensee are responsible for:

* Establishing and maintaining effective internal control procedures in relation to compliance with the requirements of Part 7.8 of the Act, the conditions of the AFSL and the provisions of the financial services laws. These duties are imposed on the AFS Licensee by the Act and the AFSL.
* Complying with the requirements of the Act and the conditions of the AFSL.

##### Restriction on Use

The FS71 auditor’s report has been prepared for the Licensee and ASIC as required by section 989B of the Corporations Act. We will not accept any responsibility for any reliance on this report to any persons or users other than the Licensee and ASIC, or for any purpose other than that for which it was prepared.

##### Fees

We look forward to full cooperation from your staff and we trust that they will make available to us whatever records, documentation and other information we request in connection with our audit.

[*Insert* *additional* *information* *here* *regarding* *fee* *arrangements* *and* *billings*, *as* *appropriate*]

##### Other

This letter will be effective for future years unless we advise you of its amendment or replacement, or the engagement is terminated.

As part of our assurance process, we will request from [management, and where appropriate, Those Charged with Governance], written confirmation concerning representations made to us in connection with the assurance process.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of [the Licensee] as required by Section 989(B) of the Act.

Yours faithfully,

(signed)

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Name and Title

Date

Acknowledged on behalf of [Licensee] by (signed)

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Name and Title

Date