

Auditing and Assurance Guidance Statement

AGS 1062

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Reporting in Connection with Proposed Fundraisings

Prepared by the **Auditing & Assurance Standards Board**
of the **Australian Accounting Research Foundation**



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AUDITING AND ASSURANCE GUIDANCE
STATEMENT

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PROPOSED FUNDRAISINGS”

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MAIN FEATURES

This Auditing and Assurance Guidance Statement (AGS):

- (a) provides general guidance to auditors and other professional accountants on engagements in relation to fundraising, particularly those engagements regulated by *Chapter 6D* of the *Corporations Act 2001*;
- (b) identifies the types of disclosure documents required under *Chapter 6D* of the *Corporations Act 2001*;
- (c) outlines the responsibilities of management and the professional accountant in connection with *Chapter 6D* fundraising engagements; and
- (d) provides guidance to the professional accountant when reporting on the engagement.

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Introduction

- .01 This Auditing and Assurance Guidance Statement (AGS) has been prepared by the Auditing & Assurance Standards Board (AuASB) to provide general guidance to auditors and other professional accountants (hereafter the professional accountant) on engagements in relation to fundraising that are regulated by the Australian Securities and Investments Commission (ASIC) and are subject to Chapter 6D provisions of the *Corporations Act 2001* (Cth) (the “Act”), and the provisions of the *Financial Services Reform Act 2001* (Cth) (“FSR Act”)¹ that may be applicable. Fundraising involves offering securities for issue or for sale including inviting applications for the issue of the securities and inviting offers to purchase the securities. Fundraising offer documents may be required, for instance, when entities make initial and secondary public offerings, or when there are offers of interests in managed investment schemes.
- .02 Audit and other assurance engagements relating to fundraising are required to adhere to the basic principles and essential procedures contained in Auditing and Assurance Standards (AUSs). This AGS has been developed to clarify the responsibilities of professional accountants in respect of such engagements, and to provide guidance to the professional accountant on additional considerations which may be taken into account when undertaking engagements agreed with the “client entity”² involved in fundraising. This AGS applies to assurance engagements relating to historical data including pro forma historical financial information, forecasts and projections in disclosure documents for potential investors. The guidance in this AGS should be read in conjunction with that contained in AUS 804 “The Audit of Prospective Financial Information” and AUS 902 “Review of Financial Reports”. This AGS is not intended to apply to taxation opinions provided on fundraising documents, or when reporting in connection with a Bidder Statement, Target Statement, or Scheme of Arrangement for the purposes of raising or restructuring debt or equity.
- .03 It is important to note that this AGS does not impose any responsibilities on the professional accountant beyond those which

¹ See the ASIC website <http://www.asic.gov.au> for an update of the latest developments and transitional issues that may be applicable in relation to proposed fundraisings.

² The term “client entity” is synonymous with “commissioning party” in ASIC’s Practice Note 43 “Valuation reports and profit forecasts”. The client entity may be the responsible party, the intended user, or both, in an assurance engagement. It also includes a body, scheme or person defined under the fundraising provisions of the Act. See paragraph .04 of this AGS for this and other definitions.

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are imposed by AUSs and the requirements of the Act. The provisions of the Act are augmented by ASIC Policy Statement 170 “Prospective financial information”, and other regulatory pronouncements. Access to this and other ASIC policy statements (PS), practice notes (PN), and information releases (IR) that also could be relevant to specific types of fundraising activities is available through the ASIC website (<http://www.asic.gov.au>).

Definitions

.04 For the purposes of this AGS:

- (a) “Securities” are shares in a body, debentures in a body, or interests in a registered managed investment scheme. Securities also include legal or equitable interests or options to acquire shares, debentures, or interests in a registered managed investment scheme that are subject to the transitional provisions of the FSR Act. Interests in a managed investment scheme may also be securities pending the transition under the provisions of the FSR Act. Securities do not cover a futures contract or an option approved by a prescribed financial market as an exchange traded option³.
- (b) “Management” means the governing body, audit committee, individual member of the governing body, officer(s) and/or other person(s) having responsibility for planning and directing the activities of an entity. The Act places specific requirements on Directors as members of the governing body in relation to disclosure documents.
- (c) “Client entity” is synonymous with “commissioning party” in ASIC’s PN 43 “Valuation reports and profit forecasts”. The client entity may be the responsible party, the intended user, or both, in an assurance engagement. It also includes a body, scheme or person defined under the fundraising provisions of the Act.

³ The definition of “securities” is consistent with Section 92(3) of the Act. Securities may also include financial instruments classified as equity in AASB 1040 “Statement of Financial Position”.

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- (d) “Fundraising” involves offering securities for issue or for sale including inviting applications for the issue of the securities and inviting offers to purchase the securities⁴.
- (e) “Financial information” in relation to fundraising may include:
 - (i) “historical financial information” that may be audited or unaudited financial information with or without adjustment(s). Adjustments to historical information may relate to the financial statements, such as the statement of financial position, statement of cash flows, and/or the statement of financial performance, and accompanying notes if applicable. The adjustments comprise “historical adjustments” which are adjustments made to correct for errors and uncertainties, and adjustments made for consistency with current Accounting Standards and/or accounting policies. The adjustments could include, for instance, restatement of provision accounts for consistency, or restatement of depreciation charges based upon current depreciation rates.
 - (ii) “pro forma historical information” comprises historical information, adjusted for significant subsequent events and other matters relating to transactions associated with the fundraising. Pro forma historical information also includes adjustments for presentation and/or disclosure. Specific adjustments involved in preparing pro forma historical information include adjustments to the financial statements, including the statement of financial position, which may have formed part of the historical financial report, to show the impact of transactions associated with fundraising. The adjustments may also include, for example, adjustments for a discontinued part of operations, or sale of a business segment.
 - (iii) “prospective financial information” is financial information based on assumptions about events that may occur in the future and on possible

⁴ The definition of “fundraising” is consistent with the offers and invitations covered under Section 700 (2) (a) & (b) of the Act.

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actions by the client entity. It is highly subjective in nature and its preparation requires the exercise of considerable judgement. Prospective financial information can be in the form of a forecast, or a projection, or a combination of both. For example, a one-year forecast plus a projection for several years.

- (f) prospective financial information must have “reasonable grounds” for its inclusion in a disclosure document. The disclosure obligations in the Act do not allow disclosure of information that is misleading. ASIC takes the view that what constitutes reasonable grounds under Section 728(2) of the Act is an objective test in that it requires a reasonable person to view the grounds for the statement as reasonable. The view of management alone in relation to assumptions about events that may occur in the future and on possible actions by the client entity as the basis for prospective financial information may be considered as being subjective, and may not meet the “reasonable grounds” requirement under the Act. Under PS 170 and the Act, prospective financial information should not be included in a disclosure document if there are no reasonable grounds for it. Prospective financial information without reasonable grounds would be misleading to potential investors. Furthermore, potential investors and their professional advisers should not reasonably require such financial information or reasonably expect to find it in a disclosure document. A decision whether or not to include prospective financial information in a disclosure document requires a balance between the information value of what is disclosed against the likelihood that the information is misleading. The two elements are interrelated. So the less reliable information is, the less relevant it becomes to investors, and the less likely it should be included in the disclosure document. PS 170 also provides indicative factors that may suggest reasonable grounds for the inclusion of prospective financial information.
- (g) A “forecast” means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place, and the actions management expects to take as of the date the information is prepared (best-estimate assumptions). The period for a forecast is generally consistent with the reporting period of

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the issuer, and may cover several periods⁵. Forecasts are generally prepared by management on a comparable basis to the historical information in an offer document, to assist potential investors in making an informed assessment of the prospects of the client entity. Forecasts may also be “estimated actual forecasts” that combine historical information over part of a reporting period, with forecast information over the remainder of the period.

- (h) A “projection” means prospective financial information prepared on the basis of:
 - (i) hypothetical assumptions about future events and management actions which are not necessarily expected to take place. This may include circumstances when entities are in a start-up phase or are considering a major change in the nature of operations; or
 - (ii) a mixture of best-estimate and hypothetical assumptions.

Such information illustrates the possible consequences, as of the date the information is prepared, if the events and actions were to occur (a “what-if” scenario). A projection will not usually have reasonable grounds. If a projection does not have reasonable grounds it will be misleading under Section 728(2) of the Act, and should not be disclosed.

- (i) “Listing Rules” are the rules governing the listing of securities on a prescribed financial market⁶ such as the Australian Stock Exchange (ASX)⁷. The Listing Rules include specific conditions and tests for securities to be admitted and listed⁸ on an ongoing basis on a prescribed financial market such as the ASX. A selection of ASX Listing Rules, that may be relevant in relation to fundraising includes for example:

⁵ PS 170 notes that longer range forecasts (greater than one or two years) may be subject to greater uncertainty.

⁶ The definition of prescribed financial market is consistent with Section 9 of the Act.

⁷ A complete set of the Listing Rules and guidance notes is available from the Australian Stock Exchange website (<http://www.asx.com.au>).

⁸ The ASX List is known as the “official list” and is defined in Chapter 19 “Interpretation and definitions” as the list of entities that ASIC has admitted and not removed.

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- (i) A client entity’s securities need to be substantiated by a disclosure document that is issued and lodged with ASIC (except for ASX Foreign Exempt Listing or an ASX Debt Listing) [ASX 1.1, Condition 3].
- (ii) There are specific requirements, known as “spread requirements” that are required for security holders of client entities seeking admission and listing on the ASX [ASX 1.1, Condition 7]. The spread requirements specify the minimum number of holders and value of securities, and the class of securities, for ASX admission. The determination of the appropriate disclosure document (i.e. information memorandum, or prospectus) that the ASX is willing to accept for client entities that have already issued an Offer Information Statement and are seeking to be admitted and listed are contingent upon the spread requirements. Under the ASX Listing Rules an Offer Information Statement is not a Prospectus.
- (iii) In addition, client entities seeking admission need to satisfy the “profit” or “assets” test [ASX 1.1, Condition 8].
 - The profit test [ASX 1.2] places specific consolidated and aggregated profit requirements on the client entity, and also requires the client entity to be a going concern and have undertaken the same main business activity over the last three years. The test also identifies the specific accounts⁹ and Directors Statements that need to be lodged with the ASX.
 - The assets test [ASX 1.3] places specific requirements on the client entity in terms

⁹ The usage of the term “accounts” is consistent with the ASX Listing Rules [ASX 19.12]. The term “accounts” is defined in Chapter 19 “Interpretation and definitions”. “Accounts” includes the balance sheet, profit and loss statement, statement of cash flows, notes or disclosures in relation to the balance sheet, profit and loss statement, and statement of cash flows required by any law, regulation, rule or Accounting Standards. Accounts also includes any other information necessary to give a true and fair view of the financial position and performance of the entity required by any law, regulation, rule or Accounting Standards.

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of net tangible assets and working capital. The test also identifies the specific accounts, independent expert reports and statements that may or may not be included as part of the disclosure document, and that need to be lodged with the ASX.

- (j) A “disclosure document” also known as an “offer document”, is a document prepared for the benefit of potential investors under the Act for fundraising. A disclosure document includes: prospectuses, short form prospectuses, profile statements and offer information statements. Disclosure documents also include an information memorandum prepared under the Listing Rules for client entities seeking admission to a prescribed financial market such as the ASX for fundraising from potential investors. Information memorandum requirements are outlined, for example, in Appendix 1A “ASX Listing application and agreement”.
- (k) “Professional accountant” means those persons, whether they be in public practice (including a sole practitioner, partnership or corporate body), industry, commerce, the public sector or education, who are members of CPA Australia or The Institute of Chartered Accountants in Australia, and includes affiliates, practice entity participants and registered graduates of the Institute. It should be noted however, that graduates of the Institute or associates from CPA Australia may not be sufficiently qualified or have sufficient experience to act as a professional accountant for the purposes of authorising an Independent Accountant’s Report.
- (l) “An Independent Accountant’s Report” is a report prepared by a qualified professional accountant on financial information provided in disclosure documents. This report is included in a separate section of the disclosure document in close proximity to the financial information section to enable the investors and professional advisors to make an informed assessment of the prospects of the client entity. The report may also be called a “Professional Accountant’s Report” or an “Investigating Accountant’s Report”.

Regulatory Framework

.05 The regulatory framework for fundraising consists principally of:

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- (a) a requirement for the person or client entity offering securities to comply with the Chapter 6D fundraising provisions of the Act and the requirements of the FSR Act that may be applicable;
 - (b) relevant ASIC policy statements (PS), practice notes (PN) and information releases (IR) applicable to specific activities in relation to fundraising¹⁰; and
 - (c) for entities seeking admission to a prescribed financial market such as the ASX, the relevant ASX Listing Rules that may be applicable to the entity¹¹.
- .06 Section 706 of the Act states that an offer of securities needs disclosure to investors. Under Section 707 of the Act offers are¹²:
- (a) *An off market sale by the controller (sale by a person controlling the body)*. Circumstances when the person making the offer controls the body¹³ and either the securities are not quoted, or if quoted, are not offered for sale in the ordinary course of trading on a stock market or prescribed financial market.
 - (b) *A sale amounting to indirect issue (sale of securities)*. Circumstances when an offer of a body’s previously undisclosed securities are available for sale within twelve months after the issue, and the securities were issued to a person with the purpose of:
 - (i) selling or transferring the securities; or
 - (ii) granting, issuing or transferring interests, in, or options or warrants over, the securities.
 - (c) *A sale amounting to an indirect off market sale by a controller (sale of securities by a person controlling the body)*. Covers circumstances when a person who controlled the body at the time of sale has either offered a body’s securities for sale, or grants, issues or transfers, options

¹⁰ Policy Statements (PS), Practice Notes (PN) and Information Releases (IR) are available at the ASIC website (<http://www.asic.gov.au>).

¹¹ See the Australian Stock Exchange website (<http://www.asx.com.au>) for a complete set of Listing Rules and ASX guidelines.

¹² Sections 707 and 708 of the Act have been amended by the FSR Act which commenced operation on the 11 March 2002.

¹³ Section 9 of the Act defines body as “body corporate or an unincorporated body and includes, for example, a society or association”.

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warrants or interests over the securities within a twelve month period. The securities were previously undisclosed securities, and either the securities were not quoted or, if quoted, were not offered for sale in the ordinary course of trading on a stock market or prescribed financial market.

- .07 Subject to the exemptions that are outlined in the FSR Act, the Act also identifies offers that do not need disclosure including:
- (a) *Small scale offerings*. These are offers to investors or sales of securities to no more than twenty persons within twelve months [Section 708(1)-(7)];
 - (b) *Offers to sophisticated investors* [Section 708(8)] and *professional investors*¹⁴ [Section 708(11)];
 - (c) *Offers to people associated with the body* [Section 708(12)];
 - (d) *Certain offers to present holders of securities* [Section 708(13) – (14)];
 - (e) *Issues to investors or sales for no consideration* [Section 708(15) – (16)];
 - (f) *Compromise or arrangement under Part 5.1* of the Act when a body is being wound up [Section 708(17)];
 - (g) *Takeovers* under a takeover bid regulated under Chapter 6 of the Act and accompanied by a bidder’s statement [Section 708(18)];
 - (h) *Offers of debentures* of an Australian Authorised Deposit-taking Institution or a body registered under the *Life Insurance Act 1995* [Section 708(19)]; and
 - (i) *Offers by an exempt body or exempt public authority* of a state or territory [Section 708(20) – (21)].
- .08 When a disclosure document under the fundraising provisions is required, the disclosure documents are required to comply with the provisions of the Act, and to be lodged with ASIC unless relief has been given. ASIC may grant relief from lodgement either by class

¹⁴ See Audit & Assurance Alert (AAA) 9: “Sophisticated Investor Reports under the Corporations Law” (now the *Corporations Act 2001*) available at (<http://www.aarf.asn.au>).

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order or on a case by case basis. Examples where class order relief applies include short term money market deposits, horse breeding schemes and film investment schemes. Examples where case by case lodgement relief applies include share purchase plans and business introduction services. However, ASIC will not give relief from the requirement to lodge a disclosure document for friendly societies or regular savings plans¹⁵.

Types of Disclosure Documents

- .09 When an offer of securities needs disclosure, the following disclosure documents may be used under the Act:
- (a) *Prospectus*. The full disclosure document prepared in accordance with Sections 710, 711 and 713 of the Act;
 - (b) *Short-Form Prospectus*. A prospectus that refers to material previously lodged with ASIC. The material is not included in the body of the prospectus. A short-form prospectus may be used for any offer¹⁶. Investors are entitled to receive a copy of the material that is lodged with ASIC if they request it;
 - (c) *Profile Statement*. With ASIC’s approval, a brief disclosure document may be sent out with offers instead of a prospectus¹⁷. In such a circumstance, the prospectus is still required to be prepared and lodged with ASIC. Investors are entitled to receive a copy of the prospectus if they request it; and
 - (d) *Offer Information Statement*. This is a document that has a lower level of disclosure than that of a prospectus. It may be used instead of a prospectus if the amount raised over the entity’s lifetime through Offer Information Statements, including the current Offer Information Statement, is five million dollars or less¹⁸.

¹⁵ See the ASIC website or contact ASIC for further information in relation to relief from lodgement.

¹⁶ See Section 712 of the Act.

¹⁷ See Section 721 of the Act.

¹⁸ See Section 709 of the Act.

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Electronic Prospectuses

- .10 Subject to the requirements of the FSR Act, prospectuses may be in paper or electronic form. ASIC PS 107 “Electronic prospectuses” allows electronic documents for fundraising when the disclosure requirements under the Act are satisfied. PS107.29 requires the electronic prospectus to be a “copy”, that is, a reproduction, transcript or imitation that is faithful to the original paper form. An electronic version is a copy of the lodged original paper version if the electronic prospectus contains the same information, and no more information, in the same sequence as the lodged prospectus with no material differences¹⁹.

Prospectus Content

- .11 Sections 710, 711 and 713 of the Act outline the content requirements of a prospectus. There are general and specific content disclosure requirements in relation to managed investment schemes, offers and sales of securities.

General Disclosure Requirements

- .12 A prospectus for a body’s securities must contain all the information that investors and their professional advisers would reasonably require to make an informed assessment. The specific matters that need to be considered are outlined in Section 710 of the Act. There are also special prospectus content rules that may be applicable under Section 713 of the Act for continuously quoted securities²⁰. The following needs to be included for offers in relation to offers and sale of securities and managed investment schemes that remain subject to the requirements of Chapter 6D (for example by virtue of the transitional provisions of the FSR Act):

- (a) *offers and sale of securities:*
 - (i) the rights and liabilities attaching to the interest or option, or the underlying securities;
 - (ii) the assets and liabilities, financial position and performance, profits and losses and prospects of the body whose securities are offered; and

¹⁹ See PS 107.45 (p.13) for a summary of ASIC’s electronic prospectuses policy.

²⁰ The reduced disclosure obligations for offers of continuously quoted securities in Section 713 operate in place of the requirements in Section 710 of the Act.

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- (iii) for an option - the capacity of the person making the offer to issue or deliver the underlying securities.
- (b) *managed investment schemes that are subject to Chapter 6D:*
 - (i) the rights and liabilities attaching to the securities offered; and
 - (ii) the assets and liabilities, financial position and performance, profits and losses and prospects of the body that has issued or is to issue the shares, debentures or interests²¹.

Continuously Quoted Securities

- .13 The Listing Rules that may be considered when preparing a prospectus, include, for instance, admission rules for Client Entities [ASX 1.1-1.7], and Debt Listing Rules [ASX 1.8-1.10]²². There are also additional disclosure requirements in the Act for a prospectus of continuously quoted securities listed on a stock exchange. These include:²³
- (a) information that investors and their professional advisers would reasonably require to make an informed assessment of the effects of the offer on the body or managed investment scheme;
 - (b) the prospectus is also required to state that:
 - (i) as a disclosing entity, the body or managed investment scheme is subject to regular reporting and disclosure obligations; and

²¹ For managed investment schemes that are regulated by the FSR Act, a different regulatory regime applies. Managed investment schemes regulated under the FSR Act require a Product Disclosure Statement defined in section 761A of the Act. Also see PS 168 “Disclosure: product disclosure statements (and other disclosure obligations)”, PN 64 “Accounting and disclosure issues for property trust prospectuses”, PN 70 “Prospectuses for cash box and investment companies”, PS 148 “Investor directed portfolio services” and other regulatory policy pronouncements, that may be applicable to the fundraising activity of the client entity, located on the ASIC website.

²² Chapter 1 of the ASX Listing Rules summarises the conditions and tests for admission to the ASX.

²³ The interpretation of continuously quoted securities is consistent with Section 9 of the Act.

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- (ii) copies of documents lodged with ASIC in relation to the body may be obtained from, or inspected at, an ASIC office; and
- (c) the prospectus should also:
 - (i) inform people of their right to obtain a copy of the most recent annual report, half-year, or interim financial report or continuous disclosure notices issued by the body or managed investment scheme that are made available free of charge to anyone who asks for a copy of the document during the application period of a prospectus²⁴; or
 - (ii) be accompanied by, or include, a copy of the document.

Specific Disclosure Requirements

- .14 Under Section 711 of the Act, a prospectus is required to disclose all necessary information prescribed by the Act including the following:
- (a) the terms and conditions of the offer;
 - (b) fees and interests of people involved in the offer. These people may include:
 - (i) a director or proposed director of the body or responsible entity of a managed investment scheme;
 - (ii) a person named in the prospectus who performs a function in a professional, advisory, or other capacity;
 - (iii) a promoter of the body; and
 - (iv) a stockbroker or underwriter (but not sub-underwriter) to the issue or sale;

²⁴ Under Section 713(5) of the Act, information about the offer that is excluded from the continuous disclosure notice of a prescribed financial market in accordance with the Listing Rules must also be included in the prospectus if it is reasonable for investors and their professional advisers to expect to find the information in the prospectus.

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- (c) for securities quoted on a stock market of a prescribed financial market, a prospectus is also required to state that the securities have been admitted for quotation on the exchange, or, an admission for quotation has been made, or an application for admission of the securities to quotation on that stock market will be made to the prescribed financial market within 7 days after the date of the prospectus;
- (d) its expiry date, and a statement that no securities will be issued after the expiry date specified in the prospectus. The expiry date must not be later than 13 months after the date of the prospectus. The expiry date of a replacement prospectus must be the same as that of the original prospectus it replaces; and
- (e) that a copy of the prospectus has been lodged with ASIC, and ASIC takes no responsibility for the content of the prospectus.

Short-Form Prospectus Content

.15 A short-form prospectus is required to meet the general and specific disclosure requirements of a prospectus. The Act, under Section 712, allows a prospectus to refer to a document lodged with ASIC instead of setting out the information. The reference is required to identify the document, or part of the document, that contains the information and inform people of the right to obtain a copy of the document. While a short-form prospectus is primarily of interest to users with specialist information needs, such as professional analysts, advisers or investors, the reference is required to include:

- (a) a description of the contents of the document or its part; and
- (b) a statement to the effect that the information in the document or part is primarily of interest to those users.

In any other case, there should be sufficient information about the contents of the document to allow a person to whom the offer is made to decide whether to obtain a copy of the document or part of the document.

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Profile Statement Content

- .16 Under Section 714 of the Act, a profile statement is required to disclose all necessary information prescribed by the regulations including the following:
- (a) identification of the body and the nature of the securities;
 - (b) the nature of the risks involved in investing in the securities;
 - (c) details of all amounts payable in respect of the securities. These include any amounts by way of fee, commission or charge;
 - (d) a disclosure that the person given the profile statement is entitled to a copy of the prospectus free of charge; and
 - (e) a disclosure that a copy of the profile statement has been lodged with ASIC and that ASIC takes no responsibility for the content of the statement.

The profile statement is also required to disclose that no securities will be issued on the basis of the statement after the expiry date specified in the statement²⁵.

Offer Information Statement Content

- .17 Under Section 715 of the Act, an offer information statement is required to include all necessary information including the following:
- (a) identification of the body and the nature of the securities;
 - (b) description of the body’s business;
 - (c) description of what the funds raised by the offer(s) are to be used for;
 - (d) description of the nature of the risks involved in investing in the securities;

²⁵ Under Section 714 of the Act, the expiry date must not be later than 13 months after the date of the prospectus. The expiry date of a replacement statement must be the same as that of the original statement it replaces.

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- (e) details of all amounts payable in respect of the securities;
- (f) a disclosure that a copy of the offer information statement has been lodged with ASIC, and that ASIC takes no responsibility for the content of the statement;
- (g) a disclosure that the statement is not a prospectus and that it has a lower level of disclosure requirements than that of a prospectus;
- (h) a statement that investors should obtain professional investment advice before accepting the offer; and
- (i) a copy of a financial report for the body that complies with PS 157 “Financial reports for offer information statements”. The financial report is required to:
 - (i) be a report for a 12 month period and have a reporting date that occurs within the last 6 months before the securities are first offered under the statement;
 - (ii) be prepared in accordance with Australian Accounting Standards; and
 - (iii) be audited.

In addition, the Statement is required to disclose that no securities will be issued on the basis of the Statement after the expiry date specified in the Statement²⁶.

- .18 For a client entity seeking admission to a prescribed financial market such as the ASX, the Listing Rules require the issue and lodgement of a prospectus as a condition for admission [Rule 1.1 Condition 3]. Under the Listing Rules of a prescribed financial market such as the ASX, an offer information statement prepared by management is not a prospectus. However, if the client entity establishes that it has not raised capital in the past three months, and does not expect to raise capital in the next three months, the ASX may agree with the client entity’s management to the issue of an information memorandum, that is generally sent to all security holders provided the spread requirements are met. Information memorandum requirements are

²⁶ Under Section 715 of the Act, the expiry date must not be later than 13 months after the date of the Statement. The expiry date of a replacement statement must be the same as that of the original statement it replaces.

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outlined in Appendix 1A “ASX Listing application and agreement” of the Listing Rules.

- .19 The information memorandum is generally a document that is prepared by the client entity’s management and may refer to the financial or other information in the offer information statement or other disclosure documents required under the Act. Unless the professional accountant is specifically engaged to prepare an Independent Accountant’s Report on the financial information included in an information memorandum, it is expected that management would need to obtain consent from the professional accountant to include the Independent Accountant’s Report in an information memorandum. This is because the Independent Accountant’s Report may have been prepared for another disclosure document such as an offer information statement.

Responsibilities of Management

- .20 When a client entity produces a disclosure document for fundraising, the Directors have primary responsibility for the information provided to investors about the body, or managed investment scheme. In particular the Act requires that the disclosure document²⁷:
- (a) sets out all the information, including financial information that is required;
 - (b) does not contain any misleading or deceptive statements²⁸. A disclosure document may also be considered to be misleading if significant information is presented in a way that investors are likely to overlook²⁹. PS 170 also requires that the information needed to assess the reliability of a forecast be presented in a way that enables a connection between the information and the forecast;
 - (c) is dated; and
 - (d) evidences that the Directors consent to the disclosure document.

²⁷ See Section 717 of the Act which provides an overview of the procedures for offering securities.

²⁸ Due to the interaction of Section 769 C and Section 1041 H in the Act, management also has a responsibility not to make misleading and deceptive statements in advertisements in relation to disclosure documents.

²⁹ See *Fraser v NRMA Holdings Ltd* (1995) 13 ACLC 132; *Pancontinental Mining Ltd v Goldfields Limited* (1995) 16 ACSR 463.

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- .21 For client entities seeking admission to and listing on a prescribed financial market such as the ASX, it is the responsibility of the Directors to comply with the terms and conditions of the listing application rules³⁰. Listing Rules of prescribed financial markets such as the ASX also require Directors to provide a statement on the adequacy of working capital³¹ following the proposed fundraising, for the entity to carry out its stated objectives. This ordinarily would require the Directors of the client entity to provide a statement on the adequacy of working capital, which is supported by work undertaken by the Directors or a specialist, and reviewed by a professional accountant. After the client entity is admitted to a securities exchange such as the ASX, the Directors also have the responsibility for compliance with the Listing Rules on an ongoing basis.
- .22 Disclosure documents under the Act are prepared by Directors to assist investors in making an informed assessment in relation to the prospects of the body or managed investment scheme. The documents may therefore include historical financial information, pro forma historical financial information and prospective financial information. Under PS 170, the Directors need to assess, on a case by case basis, whether there are reasonable grounds for the preparation and inclusion of prospective financial information in disclosure documents³². Directors should generally refrain from including prospective financial information in disclosure documents in the following non-exhaustive circumstances³³:
- (a) the client entity is in the start-up phase³⁴;
 - (b) the client entity will substantially change its operations following the capital raising;

³⁰ See Appendix 1A “ASX Listing application and agreement” of the ASX Listing Rules for a checklist of the information that needs to be completed as part of the application for admission to the ASX.

³¹ The statement is provided in a prospectus or information memorandum. See for example, the working capital requirement under “The assets test” of Chapter 1 “Admission” under the ASX Listing Rules [ASX Listing Rules 1.3.3 (a)].

³² PS 170 suggests in determining the disclosure of prospects in a disclosure document, the entity should also consider its business plan that includes budgets and other forward looking information.

³³ The view of management alone that there are reasonable grounds for a particular statement in relation to prospective financial information may not be sufficient to meet the requirements under Section 728(2) of the Act. There needs to be other indicators to meet the reasonable grounds requirement under Section 728(2) of the Act. See PS 170 for indicative factors of reasonable grounds.

³⁴ For bodies in the start-up phase, management may disclose other information on the prospects of the client entity. This may include information in relation to “cash burn” that encompasses, for example, the likely rate of expenditure, the source of further funding if and when it is required, and the method of further fundraising.

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- (c) the client entity’s present activities in relation to its products constitute research and development, and the product development is not significantly advanced to warrant a reasonable expectation of commercialisation; and
- (d) the client entity’s future operations are difficult to predict.

In the absence of prospective financial information, the Directors are required to disclose information on the prospects of the client entity. This could include information, for example, on expected expenditures, and the point in time when the client entity will exhaust cash if sufficient revenue is not derived.

- .23 If it is found that the disclosure document lodged by the Directors of the body or scheme is deficient, or a significant new matter has arisen, then management needs to consider the following under Section 717 of the Act:
 - (a) lodging a supplementary or replacement document; or
 - (b) returning application money that is held in trust to the applicants.

Considerations for the Professional Accountant

- .24 The responsibilities of the professional accountant in relation to fundraising vary from engagement to engagement. However, in all such engagements, the professional accountant needs to adopt quality control policies and procedures in accordance with AUS 206 “Quality Control for Audit Work”. Quality control policies and procedures apply at two levels. Quality control policy and procedures relate to the overall policies and procedures for all engagements, such as procedures in relation to client acceptance, and also to the direction, supervision and review of work delegated to personnel involved in a specific assurance engagement. For example, in evaluating a prospective client or reviewing an existing client, the professional accountant ordinarily carries out a preliminary review of the client entity’s operations and financial information to consider whether there may be factors which might restrict the scope of work to be carried out, or give rise to a qualification of the report.
- .25 The professional accountant is also required to hold the appropriate licences, which may be, for example, the Australian Financial

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Services Licence required by the licensing provisions of the Act and other regulations that may be applicable³⁵.

- .26 The professional accountant also needs to comply with the requirements of the Joint Code of Professional Conduct (The Code). A professional accountant who performs such an engagement needs to be independent. Professional Statements, Sections F.1 and F.2, in The Code indicate some of the situations which, because of the actual or apparent lack of independence, may give a reasonable observer grounds for doubting the independence of a professional accountant. Furthermore, Professional Statements, Sections F.3 and F.4, in The Code require the professional accountant to communicate with the existing accountant and client entity prior to acceptance of the engagement.

Agreeing on the Terms of the Engagement

- .27 Professional accountants may be engaged in a variety of engagements in relation to fundraising. These include for example:
- (a) reporting on historical and/or pro forma historical financial information;
 - (b) reporting on prospective financial information;
 - (c) compilation engagements in relation to historical and prospective financial information; and
 - (d) due diligence engagements such as managing or participating in the due diligence process in relation to the fundraising.

The conduct by the professional accountant of an audit or review engagement in accordance with Australian Auditing and Assurance Standards may not, of itself, provide a sufficient basis for the professional accountant to meet the obligations placed by the Act on experts named in the disclosure document. In circumstances when this occurs, the professional accountant extends the procedures to meet the objectives of the Act that may be applicable.

- .28 The professional accountant and the client entity agree on the terms of engagement in writing in accordance with AUS 204 “Terms of

³⁵ The professional accountant is required to meet the legislative requirements of the Act and ASIC’s Policy Statements, Practice Notes and other guidance that may be applicable. See (<http://www.asic.gov.au>).

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Audit Engagements” and/or Professional Statement Section F in the Joint Code of Professional Conduct³⁶. The engagement letter :

- (a) clarifies Directors’ responsibilities in relation to disclosure documents and financial information;
- (b) clarifies the considerations for the professional accountant in relation to:
 - (i) the preparation of a professional report for inclusion in the disclosure document and the level of assurance obtained for supporting the conclusion in the report³⁷. The engagement letter also clarifies the scope of the Professional Accountant’s Report, the responsibility for the information in the report and the format in which the report will be presented; and
 - (ii) the nature of the published consent given by the professional accountant in relation to the form and context of statements made in the disclosure document for securities under Section 716 of the Act³⁸. For example, when the client entity wishes to distribute a disclosure document in electronic and paper form, PS 107.72 requires that consent from the professional accountant is obtained for both forms. The professional accountant may also consider limiting the consent and involvement to the reports issued, or the segments of the disclosure document for which the professional accountant is directly responsible; and
- (c) outlines other matters in relation to the engagement such as:
 - (i) audit or review of interim financial reports;
 - (ii) review of any profit forecasts and preparation of any report by the professional accountant to be included in the prospectus with the forecast;

³⁶ For engagements such as compilation engagements.

³⁷ PN 43.7 requires the commissioning party to provide the expert with written instructions that clearly set out the scope and purpose of the report.

³⁸ For managed investment schemes the FSR Act specifies separate consent obligations.

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- (iii) the nature of any comfort letters required in relation to the Directors’ Statement(s) concerning borrowings, the adequacy of working capital, or other financial information;
- (iv) arrangements for the professional accountant to:
 - attend meetings in relation to the engagement such as the due diligence and risk committee meetings; and
 - use the work of experts;
- (v) the timescale for the preparation and publication of the disclosure document(s) and deadlines to be met;
- (vi) the need to communicate with the client entity’s external auditor if applicable, and/or other professional advisers; and
- (vii) arrangements to ensure an opportunity for the professional accountant to receive draft and final versions of the disclosure document in order to be satisfied with their form and content before consenting to the issue of the disclosure document. The professional accountant also may request management of the client entity to acknowledge and confirm in writing the report of the professional accountant, in order to confirm management’s understanding of the form that the report is to take and its broad content.

.29 If the engagement is a joint reporting engagement, the terms of the engagement also may include procedures to enable professional accountants from separate accounting practices to liaise on a regular basis with regard to any problems identified.

Planning

.30 In accordance with AUS 304 “Knowledge of the Business”³⁹, the professional accountant obtains knowledge of the business sufficient to enable the identification and understanding of the events,

³⁹ AUS 304 may be adapted for review engagements as necessary. For Compilation engagements also see APS 9 “Statement on Compilation of Financial Reports”.

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transactions and practices that may have a significant effect on the financial information or on the Professional Accountant’s Report. Knowledge of the business includes a general knowledge of the economy and the industry within which the client entity operates (AUS 304.03).

- .31 The professional accountant uses knowledge of the business to:
- (a) assess risks and identify problems;
 - (b) plan the engagement; and
 - (c) perform efficient and effective procedures during the engagement.
- .32 The professional accountant also uses knowledge of the business to consider the appropriateness of accounting policies and financial information disclosures such as:
- (a) the appropriateness of any adjustments made to historical financial information presented in the disclosure document; and
 - (b) the suitability of the assumptions used as the basis for the preparation of prospective financial information.
- .33 The professional accountant plans the engagement in accordance with AUS 302 “Planning”⁴⁰. In planning the engagement the professional accountant considers:
- (a) review of the financial report(s) and interim financial reports of current and prior reporting periods;
 - (b) review of the audit working papers, where available; and
 - (c) comparison of actual amounts to budgets, for example, sales, profit and loss, and capital expenditures that may provide indications of the prospects of the client entity; and,
 - (d) the implications for the engagement arising from the Listing Rules of a prescribed financial market such as the ASX and other regulations such as the FSR Act. For example, the professional accountant reviews the forecast

⁴⁰ AUS 302 may be adapted for review engagements as necessary. For Compilation engagements also see APS 9.

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statement of financial performance, statement of cash flows and statement of financial position in order to gain comfort with respect to the director’s working capital statement [see for example ASX 1.3.3 (a)] where appropriate.

- .34 The professional accountant also considers materiality and engagement risk when planning and conducting an assurance engagement in relation to disclosure documents. Consideration of materiality and engagement risk reduces the risk of expressing an inappropriate conclusion.
- .35 When the professional accountant is not the appointed external auditor of the client entity and uses the work of another auditor in relation to the disclosure document, the professional accountant needs to consider how the work of the other auditor affects the engagement⁴¹. Furthermore, Professional Statements F3 (paragraph .13) and F4 provide guidance on communicating with the other auditor and the client entity when professional work is performed.

Financial Information Included in a Disclosure Document

- .36 Financial information included in a disclosure document that is prepared by management forms part of the content requirements prepared for the benefit of potential investors and their professional advisers, to assist them to make an informed assessment of the prospects of the client entity. The conduct by the professional accountant of an audit or review engagement in accordance with Australian Auditing and Assurance Standards may not provide a sufficient basis for the professional accountant to meet the obligations placed by the Act on experts named in the disclosure document. The professional accountant also has a responsibility to consider whether the financial information in a disclosure document is sufficient to enable investors and their professional advisers to make an informed assessment of the prospects of the client entity⁴².
- .37 The financial information prepared by management in disclosure documents may comprise historical, pro forma historical and prospective financial information. Generally, the financial information needs to comply with the recognition and measurement principles in the Australian Accounting Standards, Urgent Issues Group (UIG) Consensus Views, and other Australian accounting

⁴¹ See AUS 602 “Using the Work of Another Auditor” which may be modified for fundraising engagements.

⁴² See Section 710 Prospectus content - general disclosure test.

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pronouncements. The presentation and disclosure requirements of Accounting Standards may also be relevant. In particular, information is generally classified in a manner that is not inconsistent with the requirements of Accounting Standards. However, the presentation and disclosure requirements from the ASX Listing Rules, AUS 804, and PS 170 need to be followed to the extent that compliance with these requirements would generally assist investors and their professional advisors with their investment decisions. When compliance with the presentation and disclosure requirements of the applicable accounting framework is misleading for investors and their professional advisors, and a departure from the applicable accounting framework is necessary, PS 170 requires that as a general principle management disclose the following in the disclosure document:

- (a) the reason for departure from any current Accounting Standard or UIG Consensus View;
- (b) the reason for applying an Accounting Standard in a particular way when discretion is involved;
- (c) the reason for adopting a particular accounting or disclosure treatment. For example, there may be circumstances where the past may not be relevant to the client entity’s financial position or future prospects; and
- (d) whenever comparative information is included in a disclosure document to meet the needs of investors and their professional advisors, it should generally be provided with appropriate restatements that management considers necessary. Omission of comparatives may be appropriate, with historical information however, when a major restructuring has occurred since the comparative period.

Historical Information

- .38 The professional accountant has regard to the terms of the engagement concerning historical information included in the disclosure document. Ordinarily the professional accountant ensures that the financial information provided is, where appropriate, consistent with prior period audited financial information.
- .39 The nature and extent of work to be carried out by the professional accountant varies significantly from engagement to engagement and will be influenced by:

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- (a) whether all the financial reports have previously been subject to audit or review;
- (b) whether a modified or qualified report has been issued previously;
- (c) whether the professional accountant audited or reviewed the financial report on which the report is to be based;
- (d) whether there is a need to reclassify or adjust historical amounts such as unusual and/or non-recurring and extraordinary items and prior restructuring costs, and correct for errors and uncertainties such as provisions;
- (e) whether there is consistency with current Australian Accounting Standards, UIG Consensus Views and other Australian accounting pronouncements;
- (f) whether there are transaction specific effects that clearly necessitate adjustments, such as the sale of a subsidiary or division; and
- (g) responses to enquiries of management, the external auditor (if applicable) and internal auditors where they exist⁴³. The enquires may be directed towards matters such as:
 - (i) changes in accounting policies which occurred during the period under review;
 - (ii) changes in Accounting Standards, and practices and other mandatory reporting requirements subsequent to the latest period;
 - (iii) adjustments needed to convert from overseas Generally Accepted Accounting Principles (GAAP) to Australian Accounting Standards, UIG Consensus Views, and other Australian accounting pronouncements and other mandatory reporting requirements (if applicable);
 - (iv) unadjusted audit differences that may now become material;

⁴³ Also see AUS 602 “Using the Work of Another Auditor” and AUS 604 “Considering the Work of Internal Auditing”.

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- (v) the treatment of provisions and other significant estimation areas such as revaluations; and
 - (vi) whether assets have been purchased from an associated entity or revalued prior to or after the sale.
- .40 There is no stipulation in the Act as to how many years of historical financial information should be prepared and presented by management in a disclosure document. However prescribed financial markets such as the ASX place the following requirements generally on client entities seeking admission under the profit [ASX 1.2.3] or assets test [ASX 1.3.5]:
- (a) client entities are required to prepare and lodge financial statements together with any audit or review report for the last three full financial years (or shorter period if ASX agrees) under the profit test. Under the assets test, historical financial information does not need to be audited or reviewed; and
 - (b) under the profit test, if the last full financial year ended more than eight months before the entity applied for admission, interim financial statements for the last half-year (or longer period if available) from the end of the last financial year, together with an audit or review report⁴⁴, must be provided.

Therefore, depending on the date of the last audit, listing requirements might not be satisfied, and an audit or review of a General Purpose Financial Report drawn up to an interim reporting date may be required⁴⁵.

Pro Forma Historical Information

- .41 The professional accountant considers the need for management to make adjustments, by altering the figures previously reported in the audited financial report, or altering the presentation, to promote consistency and comparability with prospective financial

⁴⁴ Also see AGS 1016 “Audit and Review Reports on Half-Year Financial Reports of Disclosing Entities under the Corporations Act 2001”.

⁴⁵ Furthermore, it is the responsibility of management of the client entity to inform the ASX if the financial statements have not been audited or reviewed [see for example the asset test 1.3.5 (a)]. Also see Section 715 and PS 157 in relation to financial reports in offer information statements.

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information. The professional accountant also considers management’s response to:

- (a) the effects of proposed operating changes that may result in adjustments being made to the financial information in the disclosure document; and
- (b) whether the changes to the presentation of financial information ensure that matters of particular importance in the context of the client entity are given due prominence.

.42 Material adjustments should generally be adequately disclosed, quantified and the reasons for adjustment explained⁴⁶. Adjustments that can be reliably estimated may be made by management to the historical financial information to:

- (a) reclassify historical amounts. Reclassification may include for example, opening adjustments on adoption of new standards or accounting policies. Reclassification also includes consistency and hindsight adjustments between different years and may also include a re-assessment of the unusual and/or non-recurring nature of items in the light of current circumstances and Accounting Standards, and from a potential investor's perspective. The professional accountant needs to consider the effects of items that constitute the profit history of the client entity such as unusual and/or non-recurring items, extraordinary items or prior restructuring costs; and
- (b) account for transaction-specific effects which clearly necessitate adjustment. These may include, for example:
 - (i) significant changes to the financing structure rendering historic interest and taxation charges irrelevant. The presentation of earnings before interest and tax rather than net profit after tax and extraordinary items may be more appropriate;
 - (ii) significant changes to the asset structure resulting in the reporting of earnings before depreciation, interest and taxes;

⁴⁶ See Section 728 of the Act which addresses misstatements in, or omissions from, disclosure documents.

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- (iii) notional consolidation for multiple entities, or exclusion of the consolidated results of parts of a group when only parts of a group are floated; and
- (iv) sale of a former subsidiary or division with any gain or loss on disposal being separately identified for the purposes of the offer.

.43 The professional accountant considers management’s adjustments in accordance with AUS 306 “Materiality and Audit Adjustments”. Adjustments are made to the historical information only if they are material. Materiality should also be considered under Section 728 of the Act from the perspective of investors which determines that an offence has occurred if the misleading or deceptive statement, omission or new circumstance is materially adverse from the point of view of investors⁴⁷. Generally:

- (a) older information will be of less relevance;
- (b) information that indicates trends may become more significant than other information that does not capture trends; and
- (c) items of a recurring nature may also become more significant than non-recurring items, particularly if the items affect the prospects of the client entity. The professional accountant considers making potential adjustments for non-recurring items only where appropriate.

In obtaining assurance for drawing conclusions, the professional accountant avoids making misleading statements in a disclosure document by stating in the report or elsewhere in the contents of the disclosure document that all adjustments considered necessary have been made, or alternatively that no adjustments are necessary.

Prospective Financial Information

.44 AUS 804 provides guidance regarding the appropriate procedures to be applied to prospective financial information. Furthermore, PS 170 provides guidance with respect to the expected disclosures in relation to forecasts and projections. PS 170 states that a disclosure document must disclose the basis of any forecast so that investors

⁴⁷ The provisions of the Act would override the requirements of AUS 306 should the application of the Act and AUS 306 yield a different result.

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can properly assess the forecast or projection. A supplementary disclosure document may be required if a forecast or projection changes significantly.

- .45 Where the professional accountant as an expert engages a specialist(s) to assist with the engagement, the principles in AUS 606 “Using the Work of an Expert” may be modified as necessary to suit the engagement. Furthermore, PN 43.27 places a responsibility on the professional accountant to:
- (a) assess whether the specialist(s) is competent in the field;
 - (b) assess whether the assumptions and methodologies that have been used seem reasonable, and draw on source data that appears to be appropriate;
 - (c) ensure that the specialist(s) is independent of, and is perceived to be independent of, interested parties⁴⁸;
 - (d) have a clear agreement with the specialist(s) concerning the purpose and scope of the work performed by the specialist(s); and
 - (e) require the specialist(s) to sign his or her report and consent to the use of it in the form and context in which it will be published⁴⁹.

Forecasts

- .46 The professional accountant(s) may have separate engagements in relation to the historical and prospective financial information contained in a disclosure document. However, when the professional accountant is engaged to obtain assurance in relation to prospective financial information that is prepared by the client entity, the professional accountant considers also the historical financial information to ensure that both prospective and historical information are developed on a consistent basis and presented in a consistent manner. The professional accountant obtains assurance in relation to the prospective financial information in forecasts in

⁴⁸ PN 43.27 requires that any lack of independence by the specialist should be clearly and prominently disclosed. The Professional Accountant’s Report should not be described as an independent report if the expert is not independent.

⁴⁹ PN 43.27 also requires that if the professional accountant as expert does not ensure that the specialist take responsibility for the report, and does not consent to the use of the report in an appropriate form and context, the professional accountant must accept the entire responsibility for the statements in the report as his or her own, and must have reasonable grounds for believing that the statements are not misleading.

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accordance with the requirements of AUS 804 and the guidance in this AGS. Furthermore, PS 170 requires also that an investor must be able to make an informed assessment of the reliability of a forecast and therefore must be able to assess:

- (a) the validity of the assumptions on which the forecast is based;
- (b) the likelihood of the assumptions actually occurring; and
- (c) the effect on the forecast if the assumptions vary.

.47 Therefore, a disclosure document containing a forecast prepared by management is required to clearly disclose information for investors concerning:

- (a) the specific assumptions used by management to compile a forecast that materially affect the significant variables, such as net profit or net assets in a forecast, and the overall forecast outcome [PS 170]⁵⁰;
- (b) explanations of the material details about the enquiries and research undertaken and the process followed by management in preparing the forecast [PS 170];
- (c) the specific period of the forecast and an explanation of the choice of period⁵¹. For forecasts beyond 2 years, ASIC generally will require supporting material to ensure that there is reasonable grounds for the forecast(s). Moreover, forecasts should generally be consistent with the reporting period of the issuer [PS 170];
- (d) the risks or factors that may or may not be within management’s control that could result in the forecast not being achieved, and that there may be a significant difference between forecast and actual results. PS 170 suggests that presenting a forecast in terms of a range may make the uncertainty in a forecast clearer for significant variables such as net profits or net assets in a disclosure document. The disclosure document should state which variables will have a significant effect on the outcome within the range. Moreover, the linkage between the assumptions, the significant variables, and the upper and

⁵⁰ See *GIO Australia Holdings Ltd v AMP Insurance Investment Holdings Pty Ltd* (1998) 29 ACSR 584, which requires the specific impact of the assumption to be set out.

⁵¹ See PN 43.49.

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lower ends of the range should be clear. A range in a forecast needs to be small enough to provide meaningful information about future prospects. Furthermore, it may be misleading to include a range when the expectation is for results at the lower end of the range [PS 170]. A more favourable figure or fact in a management forecast should not be given undue prominence; and

- (e) the sensitivity of the forecast to changes in key assumptions, and its impact on significant variables such as net profits or net assets included in the forecast. Furthermore, when a range is used by management in a sensitivity analysis, it should be realistic.

- .48 The professional accountant considers the reasonableness of the client entity’s best-estimate assumptions used to prepare profit forecasts, and the adequacy of the disclosures given in the disclosure document regarding those assumptions, and gathers sufficient appropriate evidence to obtain assurance for the conclusion in the report.

Projections

- .49 The professional accountant considers evidence in relation to the client entity’s projections, and collects evidence to gain an understanding whether the projection has been prepared on a basis consistent with the purpose of the prospective financial information provided by management in the disclosure document. Under Section 728(2) of the Act, Director’s Projections need to meet the reasonable grounds test for inclusion in a disclosure document⁵². It may be useful to note that in general ASIC is of the view that projections will not have reasonable grounds (because they are based on hypothetical assumptions or a combination of best-estimate and hypothetical assumptions).

- .50 The professional accountant also considers:
- (a) the significant implications arising from the hypothetical assumptions in accordance with AUS 804.23; and
 - (b) management responses to enquiries made by the professional accountant in relation to the material details in the projection. The professional accountant seeks

⁵² Also see paragraph .04(e)(iii) in the “Definitions” section and paragraph .22 “Responsibilities of Management” section of this AGS in relation to section 728(2).

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explanations of the material details, such as the research undertaken, and the process followed by management to establish the hypothetical assumptions in preparing the projection. PS 170 also requires the professional accountant to document the procedures conducted on the hypothetical assumptions established by management.

- .51 When prospective information that comprises both forecasts and projections is significantly affected by hypothetical assumptions, the prospective information should be treated as a projection rather than a forecast. Also, if any of the hypothetical assumptions underlying the projection are material, then in accordance with PS 170 the projection is very unlikely to have reasonable grounds. As a result, such a projection should not be included in any disclosure document. The professional accountant also has particular regard to the nature of the disclosures made. For example, the professional accountant considers whether:
- (a) forecasts based on best-estimate assumptions have been clearly differentiated from projections based on hypothetical assumptions; and
 - (b) best-estimate assumptions and hypothetical assumptions have been clearly differentiated in the disclosures given.

Other Considerations

- .52 The professional accountant adapts AUS 502 “Audit Evidence” as necessary to suit the engagement. The professional accountant obtains sufficient appropriate evidence on which to base the conclusion. Sufficiency is the measure of the quantity of evidence obtained and appropriateness is the measure of its quality, including its relevance to the subject matter. The decision as to whether a sufficient quantity of evidence has been obtained will be influenced by its quality. The quality of evidence available to the professional accountant will be affected by the nature of the subject matter and the quality of the criteria, and also by the nature and extent of the procedures applied by the professional accountant. A determination as to the sufficiency and appropriateness of evidence is a matter of professional judgement. The professional accountant collects and evaluates evidence to evaluate whether the subject matter is in conformity with the identified criteria. The conclusions expressed and the level of assurance obtained is determined by the nature and extent of the procedures and the nature of the subject matter, which reflect on the quality of evidence obtained.

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- .53 The professional accountant adapts AUS 208 “Documentation” to document matters that are important in providing evidence to support the conclusion expressed in the Professional Accountant's Report, and in providing evidence that the engagement was performed in accordance with applicable Auditing and Assurance Standards. Documentation includes a record of the professional accountant's reasoning on all significant matters, that require the exercise of judgement, together with the professional accountant's conclusion thereon. In areas involving difficult questions of principle or judgement, the documentation will include the relevant facts that were known by the professional accountant at the time the conclusion was reached⁵³.
- .54 The professional accountant considers if the client entity is a going concern in accordance with AUS 708 “Going Concern”. Expressing a going concern uncertainty would preclude the client entity from being listed on a prescribed financial market such as the ASX⁵⁴, and also results in the professional accountant withdrawing from the engagement. The professional accountant also considers the forecasts and/or projections, cash flows, and the statement of financial position in conjunction with the Directors' working capital statement when establishing whether the client entity is a going concern. The professional accountant also considers the cash flow information that supports the prospective financial information because if the prospects for profitability are not also supported by adequate cash flows, then both the forecast of the statement of financial performance and the ongoing viability of the entity are at risk. There may, however, be mitigating factors that may eliminate the going concern uncertainty with fundraising for the client entity. These factors include unequivocal financial support from another entity which has the capacity to provide support, or when the proceeds from the issue will result in the client entity becoming a going concern. In such circumstances, the professional accountant documents how unequivocal financial support and the proceeds from the issue will provide the funding for future operations of the client entity, and will result in the client entity becoming a going concern.
- .55 The professional accountant also has regard to events occurring after the reporting date to ensure that events between the date of the latest

⁵³ The professional accountant may also use the evidence and if necessary documentation for defending a potential liability that may arise under Sections 728 and 729 of the Act. For example, evidence and documentation may be used for due diligence defences for disclosure documents (Section 731); lack of knowledge defence for offer information statements and profile statements (Section 732); and as a general defence for all disclosure documents (Section 733).

⁵⁴ See the profit test in ASX 1.2 “Admission”.

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audited financial report and the publication of the disclosure document are identified and reflected in the financial information presented in the disclosure document, including the Independent Accountant’s Report. The basic principles and essential procedures in AUS 706 “Subsequent Events” may be adapted as necessary to suit fundraising engagements.

- .56 Section 716 of the Act requires the professional accountant to consent to the form and content of the report included in a disclosure document. Therefore, the professional accountant considers the information in the entire disclosure document to ensure that there are no material omissions or misleading or deceptive statements or inconsistent statements in the disclosure document, that may be related to the Independent Accountant’s Report. The professional accountant pays specific attention to areas such as:
- (a) summarised financial information and its cross referencing and consistency with the report issued for the engagement;
 - (b) other financial information such as asset values in other expert reports;
 - (c) the clarity in the specification of assumptions in relation to prospective financial information, the level of assurance obtained⁵⁵;
 - (d) management discussion and analysis of historical and forecast results;
 - (e) the terms of the issue such as the nature and amount of the securities, their value and rights as well as any minimum subscription;
 - (f) the purpose of the offer as well as how the proceeds will be applied;
 - (g) the risks associated with the offer; and
 - (h) other relevant and material information such as:
 - (i) explanations of how revenue would be generated, including relevant contracts;

⁵⁵ See PS 170.

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- (ii) other forward looking statements on the prospects of the client entity in the disclosure document that may be of a qualitative nature⁵⁶;
- (iii) nature and extent of related party disclosures;
- (iv) valuation of assets including intangible assets; and
- (v) subsequent losses.

If there are material deficiencies, misleading or deceptive statements, or significant new matters omitted from the disclosure document, which come to the professional accountant’s attention, even after the disclosure document is lodged with ASIC, Section 730 of the Act requires the professional accountant to inform the person making the offer⁵⁷. When the client entity is notified about material deficiencies, misleading or deceptive statements, or significant new matters that are omitted from the disclosure document and these are not corrected in the disclosure document, the professional accountant withdraws consent from the disclosure document and advises the client entity and ASIC accordingly.

Reporting on the Engagement

.57 The Professional Accountant’s Report, known as the “Independent Accountant’s Report” is prepared in accordance with the scope and nature of the engagement. The Independent Accountant’s Report may be a report that is specifically directed towards historical, pro forma historical, or prospective financial information. The Independent Accountant’s Report may also be a composite report that addresses historical (and pro forma historical information) and prospective financial information. When preparing a composite report covering both historical and prospective financial information, the professional accountant ensures:

- (a) the historical and prospective financial information is clearly and separately identified in the disclosure document; and
- (b) the Independent Accountant’s Report clearly identifies and segregates the work carried out on the different components of financial information.

⁵⁶ Forward looking statements may require additional disclosure such as material assumptions.
⁵⁷ Section 728 of the Act makes the person making the statement liable for material deficiencies, misleading or deceptive statements, or significant new matters omitted from the disclosure document.

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- .58 The Independent Accountant’s Report adapts the basic principles and essential procedures in existing Auditing and Assurance Standards and Guidance to provide the client entity with the agreed level of assurance in relation to the information prepared for the potential investor. For example :
- (a) *Historical (and pro forma historical) information.* The professional accountant may adopt the basic principles and essential procedures in AUS 702 “The Audit Report on a General Purpose Financial Report” for positive assurance on historical and pro forma historical information respectively. AUS 902 may also be adapted for negative assurance engagements. On pro forma historical information, PS 170 requires the professional accountant provide at least negative assurance in relation to whether the pro forma historical information has been properly prepared on the basis of pro forma transactions. When an audit is conducted, the professional accountant expresses the conclusion in the form of positive (audit level) assurance rather than negative assurance.
 - (b) *Prospective financial information.* The professional accountant applies the basic principles and essential procedures in AUS 804 or in AUS 902 adapted as necessary for negative assurance. In relation to the assumptions in prospective financial information, the professional accountant in accordance with PS 170 generally provides negative assurance in relation to best-estimate assumptions⁵⁸, and does not provide any assurance in relation to hypothetical assumptions⁵⁹. PS 170

⁵⁸ Although the conclusion may be a statement of negative assurance, AUS 804.10(a) requires the auditor to perform sufficient appropriate audit level procedures to obtain sufficient appropriate evidence to issue a statement of negative assurance on the reasonableness of management’s best-estimate assumptions.

⁵⁹ AUS 804.10(b) requires the professional accountant not to express a conclusion on the hypothetical assumptions. However, when there are best-estimate and hypothetical assumptions and the hypothetical assumptions are not material to the projection, then it may be possible to express negative assurance on the projection in accordance with PS 170. PS 170 requests the professional accountant to consider whether a particular assumption is “significant”. In the context of assessing whether assumptions are “significant” in accordance with PS 170, the professional accountant applies the basic principles and essential procedures in AUS 306 “Materiality and Audit Adjustments”. In applying the basic principles and essential procedures in accordance with AUS 306, the professional accountant gives consideration to both the quantitative and qualitative nature of the assumption(s), the potential for the assumption(s) to be material in the context of the investment decision of a prospective investor, and the impact of the assumption(s) on the reasonable grounds test for the prospective financial information to which the assumption(s) pertains. PS 170 specifies only the minimum assurance that is required for hypothetical assumptions (no assurance) and best-estimate assumptions (review assurance).

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requires that the report of the professional accountant, as an expert, clearly identifies which assumptions made by the Directors may be subject to negative assurance (best-estimate assumptions) and which are not subject to any assurance (hypothetical assumptions). The professional accountant is required to check whether the assumptions are appropriately disclosed. If the disclosure document does not include this disclosure, the professional accountant considers issuing a qualified report or withdrawing from the engagement.

(c) *Other assurance engagements:*

(i) *Compilation engagements.* The professional accountant may report in accordance with AUS 904 “Engagements to Perform Agreed-upon Procedures” and APS 9 “Statement on Compilation of Financial Reports”. The professional accountant clarifies management’s acceptance of responsibility in relation to the compilation; and

(ii) *Other engagements.* In due diligence engagements in relation to fundraising, the professional accountant communicates with management by adapting the basic principles and essential procedures in AUS 710 “Communicating with Management on Matters Arising from an Audit”.

.59 The responsibility for the preparation of the financial information including historical information, pro forma historical information, projections and forecasts rests with management. PS 170 requires that where the professional accountant, as expert, is also engaged to compile the financial report, the professional accountant needs to disclose the extent of responsibility for the preparation of the financial information in the report.

.60 The “Independent Accountant’s Report” includes the following basic elements, ordinarily laid out as:

- (a) a title;
- (b) the addressee;
- (c) a background section that:

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- (i) identifies the purpose of the report;
 - (ii) identifies the information being reported on;
 - (iii) states that the Independent Accountant’s Report has been prepared for inclusion in the disclosure document; and
 - (iv) defines the responsibilities of each of the professional accountant and management in relation to the disclosure document;
- (d) section(s) describing the scope of the engagement. The scope section(s) generally:
- (i) includes similar content to that normally included for audit and review engagements;
 - (ii) separates audit and review procedures; and
 - (iii) refers to the financial information section that outlines the basis of accounting, and any adjustments that have been made to the financial information for the disclosure document⁶⁰.

The scope section(s) may also refer to the source(s) of the financial information in instances where the professional accountant was the prior year external auditor. When the professional accountant was not the prior year auditor, the professional accountant refers to the prior year auditor. The prior year auditor would also be named in the disclosure document and a formal consent needs to be obtained for that disclosure from the external auditor. The scope section may also indicate how a previous financial report qualification(s) is addressed in the disclosure document⁶¹.

- (e) in circumstances, when there are matters that come to the professional accountant’s attention that require the assurance provided to be qualified, the Independent

⁶⁰ The adjustments may be detailed in a separate section of the disclosure document and the section may only be referred to in the report.

⁶¹ In instances where there may be a limitation of scope on the work performed, the scope section may include a disclaimer with respect to future events for prospective information, and a statement that the work was less in scope than an audit.

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Accountant’s Report draws attention to these matters in a separate section describing the qualification⁶²;

- (f) a section expressing the professional accountant’s conclusions on the financial information. Separate conclusions may be required for historical information, pro forma historical information, and prospective financial information and also to distinguish assurance provided in different reports;
 - (g) a section on the potential impact of subsequent events, if applicable;
 - (h) an independence or disclosure of interest statement⁶³;
 - (i) the professional accountant’s signature;
 - (j) the professional accountant’s address; and
 - (k) the date of the report (generally on or after the date of the disclosure document)⁶⁴.
- .61 The professional accountant obtains assurance to support the conclusion in the Independent Accountant’s Report in accordance with the requirements of the Act and the terms of engagement. The professional accountant considers the nature of the financial information (i.e. historical or prospective financial information) in the disclosure document when obtaining assurance. Appendix 1 to this AGS clarifies the reporting guidance for the professional accountant in AUS 804 and this AGS in relation to financial information in disclosure documents. Appendix 2 includes sample Independent Accountant’s Reports on historical and prospective financial information.
- .62 As the professional accountant consents to the report being issued as part of the disclosure document under the Act, the professional accountant needs to ensure that the Independent Accountant’s Report is:
- (a) issued by the professional accountant, and included in the disclosure document. The professional accountant takes

⁶² See PS 170.

⁶³ See PN 42.

⁶⁴ The offer information date is the date the Directors date the prospectus, and the date to which subsequent events are considered. The date is generally as close to the disclosure document issue date as practicable.

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responsibility only for the specific section(s) in the disclosure document that the professional accountant has agreed to in the terms of engagement with management;

- (b) appropriately cross referenced and consistent with other information disclosed in the disclosure document; and
- (c) appropriately positioned in the disclosure document in relation to the information on which the professional accountant gives assurance⁶⁵.

Operative Date

.63 This AGS is operative from date of issue.

Compatibility with International Standards and Statements on Auditing

.64 There is no corresponding International Standard or Statement on Auditing.

⁶⁵ See PS 170.

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APPENDIX 1

REPORTING ON FINANCIAL INFORMATION IN A DISCLOSURE DOCUMENT[#]

The Independent Accountant's Report		Financial Information in a Disclosure Document		
		Historical Information*	Prospectives (Note 3)	
			Forecasts (Best Estimate Assumptions Only)	Projections (Best Estimate and/or Hypothetical Assumptions)
	<u>Conclusion</u>			
<u>Reporting Guidance</u>	<i>Audit</i> <i>(positive statement of expression)</i>	Appendix 2 (Example 1)	Note 2	Note 1
	<i>Review</i> <i>(negative statement of expression)</i>	Appendix 2 (Example 2)	Appendix 2 (Example 3)	Appendix 2 (Example 3 Modified as necessary - also see Note 4)

In a number of circumstances a composite report may be issued that combines a forecast with pro forma historical information.

* Historical information includes pro forma historical financial information.

Notes:

- (1) Shading of the “Audit Conclusion” under “Projections” above indicates that the audit conclusion does not apply to projections.
- (2) An audit report on forecasts may be issued only in rare and exceptional circumstances. For guidance on audits of forecasts see AUS 804.
- (3) Prospective financial information in a disclosure document must have reasonable grounds for its inclusion. Where hypothetical

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assumptions are used, the report should state whether or not those assumptions may have a significant impact upon the prospective financial information presented. The larger the impact of hypothetical assumptions on a projected outcome, the more likely it is the projection will not be based on reasonable grounds. Where the prospective financial information is a forecast, the best-estimate assumptions must be objectively reasonable. See PS 170.

- (4) Directors include projections as part of the disclosure document only when there are reasonable grounds under Section 728(2) of the Act. Also, in accordance with paragraph .51 of this AGS, if any of the hypothetical assumptions underlying the Director’s Projections are material, then in accordance with PS 170 it is very unlikely that the projection has reasonable grounds. Therefore projections with material hypothetical assumptions should generally not be included in any disclosure document. The professional accountant issues a report on projected financial information only in rare and exceptional circumstances to avoid making misleading or deceptive statements under Section 728(1) of the Act.

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APPENDIX 2

EXAMPLES OF INDEPENDENT ACCOUNTANTS’ REPORTS

This example report incorporates the requirements of this AGS. However, it is not intended to suggest standard wording for circumstances relating to all engagements.

Example 1: Independent Accountant’s Report on Audited Historical Financial Information

The Directors

[Name of Company / Trust]

[Address]

[Date]¹

Subject: Independent Accountant’s Report on Audited Historical Financial Information

Dear [Addressee],

We have prepared this Independent Accountant’s Report (report) on historical financial information of _____ [and controlled entities] (the Company / Trust) for inclusion in a {disclosure document} dated on or about _____, the {disclosure document²} relating to the issue of _____ [ordinary shares / units] in the [Company / Trust].

Expressions defined in the {disclosure document} have the same meaning in this report.

Background

[insert any background information relating to the Company / Trust which is deemed relevant]

¹ The date of both the hard copy and electronic versions of the report should be the same. The professional accountant may provide the electronic report in Adobe Acrobat® PDF format where possible to ensure the electronic report is an identical copy of the hard copy report. See PS 107.

² Specify the type of disclosure document.

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Scope

You have requested [Firm Name] to prepare a report covering the following information:

- (a) the historical financial performance of the [Company / Trust] for the [year(s) / period(s)] ended _____;
- (b) the historical statement of financial position as at _____ and the pro forma statement of financial position as at _____ which assumes completion of the contemplated transactions disclosed in Section [] of the {disclosure document} (the pro forma transactions);
- (c) the statement of cash flows (if applicable).

[insert any other information relating to the Company / Trust which is deemed relevant³]

(referred to collectively as the historical financial information)

Audit of Historical Financial Information

The historical financial information set out in Section [] of the {disclosure document} has been extracted from the [audited] financial statements of the [Company / Trust] which was previously audited by [Firm Name] that issued a [qualified/unqualified] audit opinion in respect of the historical financial information. The [Directors / Directors of the client entity] are responsible for the preparation of the historical financial information, including determination of the adjustments.

We have audited the historical financial information of the [Company / Trust] for the period(s) ended [insert end(s) of the period(s)]. Our audit has been conducted in accordance with Australian Auditing and Assurance Standards to provide reasonable assurance whether the historical financial information is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the historical financial information, and the evaluation of accounting policies and significant accounting estimates. Our procedures also included:

³ Include, for example, any departure from the disclosure requirements of an Accounting Standard or UIG Consensus View and the reasons for the departure, in relation to the financial information prepared for the benefit of the potential investor (see paragraph .37 of this AGS).

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- consideration of the assumptions used to compile the pro forma statement of financial position and/or statement of financial performance;
- audit of the pro forma historical financial information; and
- comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the [Company / Trust] disclosed in Section [] of the {disclosure document} [and the requirements of the constitution].

These procedures have been undertaken to form an opinion whether, in all material respects, the historical financial information is presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements [and relevant statutory and other requirements] in Australia so as to present a view which is consistent with our understanding of the [Company / Trust] financial position, the results of its operations and its cash flows. The audit opinion expressed in this report has been formed on the above basis.

Conclusion:

Audit Opinion on Historical Financial Information

In our opinion:

- the pro forma statement of financial position has been properly prepared on the basis of the transactions described in Section [] Notes to the Financial Information in the {disclosure document}; and
- the other historical financial information, as set out in Section [] of the {disclosure document} presents fairly:
 - (a) the historical financial performance of the [Company / Trust] for the [year(s) / period(s)] ended _____; and
 - (b) the historical statement of financial position of the [Company / Trust] as at _____,

in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements, and accounting policies

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adopted by the [Company / Trust] disclosed in Section [] of the
{disclosure document} [and the requirements of the constitution] ⁴.

Subsequent events

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief, no material transactions or events outside of the ordinary business of the [Company / Trust] have come to our attention that would require comment on, or adjustment to, the information referred to in our report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest⁵

[Firm Name] does not have any interest in the outcome of this issue other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

⁴ Identify departures from the disclosure requirements of Accounting Standards and UIG Consensus Views if applicable (see paragraph .37 of this AGS).

⁵ See PN 42.

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**Example 2: Independent Accountant’s Report on Reviewed Historical
Financial Information**

The Directors

[Name of Company / Trust]

[Address]

[Date]⁶

**Subject: Independent Accountant’s Report on Reviewed Historical
Financial Information**

Dear [Addressee],

We have prepared this Independent Accountant’s Report (report) on historical financial information of _____ [and controlled entities] (the Company / Trust) for inclusion in a {disclosure document} dated on or about _____ the {disclosure document⁷} relating to the issue of [ordinary shares / units] in the [Company / Trust].

Expressions defined in the {disclosure document} have the same meaning in this report.

Background

[insert any background information relating to the Company / Trust which is deemed relevant]

Scope

You have requested [Firm Name] to prepare a report covering the following information:

- (a) the historical financial performance of the [Company / Trust] for the [year(s) / period(s)] ended _____;
- (b) the historical statement of financial position as at _____ and the pro forma statement of financial position as at _____, which assumes completion of the contemplated transactions disclosed in

⁶ The date of both the hard copy and electronic versions of the report should be the same. The professional accountant may provide the electronic report in Adobe Acrobat® PDF format where possible to ensure the electronic report is an identical copy of the hard copy report. See PS 107.

⁷ Specify the type of disclosure document.

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Section [] of the {disclosure document} (the pro forma transactions);

(c) the statement of cash flows (if applicable).

[insert any other information relating to the Company / Trust which is deemed relevant⁸]

(referred to collectively as the historical financial information)

Review of Pro Forma Historical Financial Information

The historical financial information set out in Section [] of the {disclosure document} has been extracted from the [audited] financial statements of the [Company / Trust] which was previously audited by [Firm Name] that issued a [qualified/unqualified] audit opinion in respect of the historical financial information. The [Directors / Directors of the client entity] are responsible for the preparation of the historical financial information, including determination of the adjustments.

We have conducted our review of the historical financial information in accordance with the Australian Auditing and Assurance Standard AUS 902 “Review of Financial Reports”. We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- analytical procedures on the [audited] financial performance of the [Company / Trust] for the relevant historical period;
- a review of work papers, accounting records and other documents;
- a review of the assumptions used to compile the pro forma statement of financial position and/or statement of financial performance;
- a review of the adjustments made to the pro forma historical financial information;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the [Company / Trust] disclosed in

⁸ Include for example, any departure from the disclosure requirements of an Accounting Standard or UIG Consensus View and the reasons for the departure, in relation to the financial information prepared for the benefit of the potential investor (see paragraph .37 of this AGS).

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Section [] of the {disclosure document} [and the requirements of the constitution], and

- enquiry of Directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion:

Review Statement on Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the pro forma statement of financial position has not been properly prepared on the basis of the pro forma transactions;
- the historical financial information, as set out in Section [] of the {disclosure document} does not present fairly:
 - (a) the historical financial performance of the [Company / Trust] for the [year(s) / period(s)] ended _____; and
 - (b) the historical statement of financial position of the [Company / Trust] as at _____,

in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements, and accounting policies adopted by the [Company / Trust] disclosed in Section [] of the {disclosure document} [and the requirements of the constitution]⁹.

Subsequent events

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of the [Company / Trust] have come to our attention that would require comment on, or

⁹ Identify departures from the disclosure requirements of Accounting Standards and UIG Consensus Views if applicable (see paragraph .37 of this AGS).

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adjustment to, the information referred to in our report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest¹⁰

[Firm Name] does not have any interest in the outcome of this issue other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

¹⁰ See PN 42.

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Example 3: Independent Accountant’s Report on Forecast Financial Information^{11,12}

The Directors

[Name of Company / Trust]

[Address]

[Date]¹³

Subject: Independent Accountant’s Report on Forecast Financial Information

Dear [Addressee],

We have prepared this Independent Accountant’s Report (report) on the forecast financial information of _____[and controlled entities] (of the [Company / Trust]) for the financial year(s) / period(s) ending _____ for inclusion in a {disclosure document}¹⁴ dated on or about _____ (the {disclosure document}) relating to the issue of _____ [ordinary shares / units] in the [Company / Trust]. This report is prepared in accordance with AUS 804 “The Audit of Prospective Financial Information” and PS 170 “Prospective financial information”.

Expressions defined in the {disclosure document} have the same meaning in this report.

¹¹ In rare and exceptional circumstances, when the Directors’ hypothetical assumptions have no material impact on the projected outcome, the professional accountant modifies the report for the Directors’ Projection(s) in accordance with the requirements of PS 170. When issuing a report on Directors’ Projection(s) the professional accountant considers whether the Directors’ Projection(s) included in the disclosure document clearly identify and differentiate hypothetical assumptions from best-estimate assumptions. In addition, in accordance with requirements of PS 170 the professional accountant provides a statement as part of the conclusion in the Independent Accountant’s Report that the Directors’ hypothetical assumptions have no material impact on the projected outcome in the Directors’ Projections. When the hypothetical assumptions have a material impact on the projected outcome, the professional accountant avoids issuing an Independent Accountant’s Report on the projection as it is unlikely that the Directors’ Projection, as a forward looking statement, has reasonable grounds under Section 728(2) of the Act.

¹² The Independent Accountant’s Report on Forecast Financial Information may be modified for Directors’ Projections. The modifications include, for example, replacement of the word “forecast(s)” with “projection(s)” and referring to “hypothetical assumptions” in conjunction with “best-estimate assumptions” where appropriate (see for example, footnote 18).

¹³ The date of both the hard copy and electronic versions of the report should be the same. The professional accountant may provide the electronic report in Adobe Acrobat® PDF format where possible to ensure the electronic report is a copy of the hard copy report. See PS 107.

¹⁴ Specify the type of disclosure document.

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The nature of this report is such that it can be given only by an entity which holds a [specific¹⁵] licence. [Firm Name] holds the appropriate [specify] licence under the *Corporations Act 2001*.

Background

[insert any background information relating to the Company / Trust which is deemed relevant]

Scope

You have requested [Firm Name] to prepare a report covering the following information:

- (a) forecast financial performance of the [Company / Trust] for the [year(s) / period(s)] ending _____; and
- (b) the statement of financial position of the [Company / Trust] as at _____, which assumes completion of the contemplated transactions disclosed in Section [] of the {disclosure document} (the pro forma transactions).

[insert any other information relating to the Company / Trust which is deemed relevant^{16,17}]

(referred to collectively as the forecasts)

The [Directors / Directors of the client entity] are responsible for the preparation and presentation of the forecasts, including the best-estimate assumptions¹⁸, which include the pro forma transactions, on which they are based. The forecasts have been prepared for inclusion in the {disclosure

¹⁵ The specific licence may be, for example, the Australian Financial Services Licence required by the Act.

¹⁶ For Directors' Projections, the Independent Accountant's Report needs to identify and differentiate the hypothetical assumptions and best-estimate assumptions in the disclosure document. The following wording may be used for a projection:

“The Directors' Projections have been prepared by the Directors using a set of assumptions which include:

- *best-estimate assumptions relating to future events and management actions that the Directors expect to occur. The Directors' best-estimate assumptions are set out in Section [] on pages [] and [] of the {disclosure document}; and*
- *hypothetical assumptions about future events and management actions that may not necessarily occur. The Directors' hypothetical assumptions are set out in Section [] on pages [] and [] of the {disclosure document}.”*

¹⁷ Include for example, any departure from the disclosure requirements of an Accounting Standard or UIG Consensus View and the reasons for the departure, in relation to the financial information prepared for the benefit of the potential investor (see paragraph .37 of this AGS).

¹⁸ Include “and hypothetical assumptions” for Directors' Projections.

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document}. We disclaim any assumption of responsibility for any reliance on this report or on the forecasts to which it relates for any purposes other than for which it was prepared.

*Review of Directors’ Best-Estimate Assumptions*¹⁹

Our review of the best-estimate assumptions underlying the Directors’ forecasts was conducted in accordance with the Australian Auditing and Assurance Standard AUS 902 “Review of Financial Reports”. Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary. These procedures included discussion with the Directors and management of the [Company / Trust] and have been undertaken to form an opinion whether anything has come to our attention which causes us to believe that the best-estimate assumptions do not provide a reasonable basis for the preparation of the forecasts and whether, in all material respects, the forecasts are properly prepared on the basis of the best-estimate assumptions and are presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of the [Company / Trust] disclosed in Section [] of the {disclosure document} [and the Trust Deed of the Trust dated _____ (the constitution)] so as to present a view of the [Company / Trust] which is consistent with our understanding of the [Company’s / Trust’s] past, current and future operations.

The forecasts have been prepared by the Directors to provide investors with a guide to the [Company’s / Trust’s] potential future financial performance based upon the achievement of certain economic, operating, developmental and trading 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 forecasts. Actual results may vary materially from those forecasts and the variation may be materially positive or negative. Accordingly, investors should have regard to the investment risks and sensitivities set out in Section [] of the {disclosure document}.

Our review of the forecast information that is based on best-estimate assumptions, is substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards. A review of this nature provides less assurance than an audit. We have not

¹⁹ For Directors’ Projections modify title to *Review of Directors’ Assumptions*. Create a subheading *Best-Estimate Assumptions* under *Review of Directors’ Assumptions*.

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performed an audit and we do not express an audit opinion on the forecasts included in the {disclosure document}²⁰.

Conclusion:

*Review Statement on the Forecasts*²¹

Based on our review of the forecasts, which is not an audit, and based on an investigation of the reasonableness of the Directors’ best-estimate assumptions giving rise to the prospective financial information, nothing has come to our attention which causes us to believe that:

- (a) the Directors’ best-estimate assumptions set out in Section [] of the {disclosure document} do not provide reasonable grounds for the preparation of the forecasts;
- (b) the forecasts are not properly compiled on the basis of the Directors’ best-estimate assumptions and are presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the [Company / Trust] disclosed in Section [] of the {disclosure document} [and the requirements of the constitution];
- (c) that the forecast itself is unreasonable; and
- (d) the statement of financial position has not been properly prepared on the basis of the pro forma transactions²².

The underlying assumptions are subject to significant uncertainties and contingencies often outside the control of the [Company / Trust]. If events do not occur as assumed, actual results and distributions achieved by the [Company / Trust] may vary significantly from the forecasts. Accordingly,

²⁰ For Directors’ Projections, create a subheading *Hypothetical Assumptions* and introduce the following text below:

“We have also reviewed the Directors’ Projections for the years ending [insert date] and [insert date] to assess whether the Directors’ have prepared the projections, in all material respects, in accordance with:

- *the stated hypothetical assumptions; and*
- *the accounting policies disclosed in Note 1 set out in Section [] of the [disclosure document].”*

²¹ For a projection, modify subheading to *Review Statement on the Projections* and replace “forecast(s)” with “projection(s)” where appropriate.

²² In accordance with PS 170 the following additional statement is required for a projection:
“(e) the hypothetical assumptions identified in Section [] on pages [] and [] of the {disclosure document} have no significant impact on the projected outcome in the Directors’ Projections.”

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we do not confirm or guarantee the achievement of the forecasts, as future events, by their very nature, are not capable of independent substantiation.

Subsequent events

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of the [Company / Trust] have come to our attention that would require comment on, or adjustment to, the information referred to in our report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest²³

[Firm Name] does not have any interest in the outcome of this issue other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

²³ See PN 42.