

EXPOSURE DRAFT

**ED XX/11**  
(February 2011)

**Proposed Standard on  
Assurance Engagements  
ASAE 34XX  
*Assurance Engagements  
involving Corporate  
Fundraisings and Prospective  
Financial Information***

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Issued for Comment by the **Auditing and Assurance Standards Board**



**Australian Government**

**Auditing and Assurance Standards Board**

## **Commenting on this Exposure Draft**

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 30 June 2011. Comments should be addressed to:

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007  
AUSTRALIA  
E-mail: [edcomments@auasb.gov.au](mailto:edcomments@auasb.gov.au)

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au).

## **Obtaining a Copy of this Exposure Draft**

This Exposure Draft is available on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au).

## **Contact Details**

Auditing and Assurance Standards Board  
Level 7  
600 Bourke Street  
Melbourne Victoria 3000  
AUSTRALIA

Phone: (03) 8080 7400  
Fax: (03) 8080 7450  
E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

**Postal Address:**  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007  
AUSTRALIA

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## PREFACE

### **Reasons for Issuing ED XX/11**

The AUASB issues Standard on Assurance Engagements ASAE 34XX *Assurance Engagements involving Corporate Fundraisings and Prospective Financial Information* pursuant to the requirements of the legislative provisions explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate Assurance Standards for other purposes.

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## **Main Proposals**

This proposed Standard on Assurance Engagements establishes requirements and provides application and other explanatory material for undertaking and reporting on assurance engagements relating to corporate fundraisings and prospective financial information included in, or to be included in, a public document, private report, or for other purposes.

## **Proposed Operative Date**

It is intended that this proposed Standard on Assurance Engagements will be operative for assurance engagements related to corporate fundraising or the examination of prospective financial information commencing on or after 1 January 2012.

## **Request for Comments**

Comments are invited on this Exposure Draft of the proposed re-issuance of ASAE 34XX *Assurance Engagements involving Corporate Fundraisings and Prospective Financial Information* by no later than 30 June 2011. The AUASB is seeking comments from respondents on the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?
5. Are there any other significant public interest matters that constituents wish to raise?
6. Should this proposed ASAE be split according to the type of financial information?

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7. Should the section covering assurance on the proper compilation of pro forma financial information be included in a separate ASAE?

The AUASB prefers that respondents express a clear opinion on whether the proposed Standard on Assurance Engagements, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the Standard on Assurance Engagements.

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Assurance Engagements ASAE 34XX *Assurance Engagements involving Corporate Fundraisings and Prospective Financial Information* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Assurance Engagements is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied.

Dated: <TypeHere>

M H Kelsall  
Chairman - AUASB

## STANDARD ON ASSURANCE ENGAGEMENTS ASAE 34XX

### *Assurance Engagements involving Corporate Fundraisings and Prospective Financial Information*

#### **Application**

1. This Standard on Assurance Engagements applies to assurance engagements relating to:
  - (a) the examination of historical and/or prospective financial information included in, or to be included in, a public document;
  - (b) the examination of historical and/or prospective financial information not included in, or not to be included in a public document, that is intended to be distributed to a party external to the entity; and
  - (c) reporting on the proper compilation of pro forma financial information.
2. This Standard on Assurance Engagements also applies to assurance engagements that involve:
  - (a) the examination of historical and/or prospective financial information not included in, or to be included in a public document, and that is intended to be distributed within the entity, other than to the party responsible for the preparation of the financial information; and
  - (b) the examination of prospective financial information that is the subject of an assurance report not included in, or to be included in, a public document.

#### **Operative Date**

3. This Standard on Assurance Engagements is operative for assurance engagements related to corporate fundraisings and the examination of prospective financial information that commence on or after [insert date].

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## **Introduction**

### **Scope of this Standard on Assurance Engagements**

4. This ASAE deals with the responsibilities of the assurance practitioner when preparing an assurance report on financial information prepared by the responsible party in respect of corporate fundraisings (including takeovers, schemes of arrangements and other transactions), the examination of prospective financial information and the proper compilation of pro forma financial information. This ASAE applies regardless of whether such financial information is included, or to be included in, a public document, or prepared for other purposes. References in this ASAE to “the document” are taken to mean a public document, a private report, or other document, prepared in connection with a corporate fundraising or the examination of prospective financial information.
5. Financial information that is the subject of an assurance report may be in the form of:
- (a) historical financial information; and/or
  - (b) pro forma historical financial information; and/or
  - (c) pro forma forecast; and/or
  - (d) prospective financial information;

and may be stand-alone or aggregated. The assurance practitioner may also be asked to report on the proper compilation of pro forma financial information rather than the underlying financial information itself.

References in this ASAE to “financial information” are taken to mean the specific financial information on which the assurance practitioner intends to express an assurance conclusion, unless otherwise stated.

### *Types of Assurance*

6. Assurance engagements relating to a corporate fundraising or prospective financial information, by their nature and scope of procedures performed, are ordinarily limited assurance engagements. However, the assurance practitioner may, in the circumstances of the engagement, agree with the responsible party to

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conduct a reasonable assurance engagement. Such circumstances ordinarily involve reasonable assurance on historical financial information only. (Ref: Para. A1-A2)

*Non-Assurance Services*

7. The assurance practitioner may be requested by the responsible party to perform both assurance and non-assurance services. This ASAE applies only to the assurance services. (Ref: Para. A3-A4)

*Relationship with Other AUASB Standards*

8. This ASAE deals with specific additional considerations in the application of ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* and ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* to assurance engagements relating to corporate fundraisings and prospective financial information. In particular, where the purpose of the assurance engagement is to obtain:
- (a) limited assurance on historical (or pro forma historical) financial information, the assurance engagement is performed in accordance with this ASAE, in conjunction with ASRE 2405;
  - (b) reasonable assurance on historical financial information, the assurance engagement is performed in accordance with this ASAE in conjunction with applicable Australian Auditing Standards.
  - (c) reasonable or limited assurance on pro forma forecast, or prospective financial information, the assurance engagement is performed in accordance with this ASAE, in conjunction with ASAE 3000;
  - (d) reasonable or limited assurance on the aggregation of pro forma financial information, the assurance engagement is performed in accordance with this ASAE, in conjunction with ASAE 3000; and/or
  - (e) reasonable or limited assurance on the proper compilation of pro forma financial information, the assurance engagement is performed in accordance with this ASAE, in conjunction with ASAE 3000.

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9. This ASAE does not override the requirements of ASRE 2405, ASAE 3000, Australian Auditing Standards or Assurance Standards, which apply in the engagement circumstances. It does not purport to deal with all the considerations that may be relevant in the engagement circumstances.

**Effective Date**

10. [Deleted by the AUASB. Refer AUS 0.3]

**Objectives**

11. The objectives of an assurance engagement involving corporate fundraisings and prospective financial information is to enable the assurance practitioner to express a conclusion regarding the outcome of the measurement of the financial information through a written report (“assurance report”) that clearly conveys either a reasonable or limited assurance conclusion and describes the basis of that conclusion.

**Definitions**

12. For the purposes of this Standard on Assurance Engagements, the following terms have the meanings attributed below:
- (a) Aggregated financial information means financial information which has been aggregated, classified, summarised, and/or extracted from different source(s) by the responsible party, for the purpose of presenting the aggregated financial information in a specific document. It is ordinarily pro forma financial information that is aggregated.
  - (b) Applicable criteria means the benchmarks used by the responsible party in the preparation of financial information included in the document. The criteria<sup>1</sup> used depends on the nature of the financial information.
  - (c) Applicable financial reporting framework means the financial reporting framework adopted by the responsible party in the preparation of the financial information that is acceptable in view of the nature of the entity, and the

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<sup>1</sup> For example, applicable criteria may be the recognition and measurement principles contained in Australian Accounting Standards, applicable law, or regulation.



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objective of the financial information. In Australia, an applicable financial reporting framework that may be used in preparing financial information is represented by the Australian Accounting Standards.

- (d) Assurance engagement means an engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of investors and other intended users (other than the responsible party) about the reliability of, the financial information or proper compilation of financial information included in, or to be included in, the document.
- (e) Assurance practitioner means a person, or an organisation, whether in public practice, industry, commerce or the public sector, providing assurance services.
- (f) Assurance engagement risk means the risk that the assurance practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.
- (g) Assurance report means a written report prepared by an assurance practitioner relating to:
  - (i) financial information included in, or to be included in, a public document, relating to a corporate fundraising, or prospective financial information. This is commonly referred as an Investigating Accountant's Report. Refer paragraph (t) of this ASAE for a definition of a Investigating Accountant's Report; or
  - (ii) financial information prepared for other purposes, and not included in, or to be included in, a public document issued relating to a corporate fundraising, or prospective financial information. This is commonly referred to as a Private Report. Refer paragraph (ee) of this ASAE for a definition of a Private Report.
- (h) AUASB Standards means standards issued by the Auditing and Assurance Standards Board (AUASB) comprising:
  - (i) Australian Auditing Standards;

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- (ii) Standards on Review Engagements; and
- (iii) Standards on Assurance Engagements.
- (i) Base financial information means financial information that is unadjusted, and is the starting point to which pro forma transactions and adjustments are applied by the responsible party. Base financial information is ordinarily historical in nature, however, it can also be prospective (for example a profit forecast). It may also be referred to as source financial information.
- (j) Basis stated means the applicable criteria, together with explanatory notes describing how the applicable criteria have been applied, selected by the responsible party to illustrate the effects of the event(s) or transaction(s) being illustrated.
- (k) Best-estimate assumptions. Refer paragraph (aa) of this ASAE for the definition of “objective reasonable assumptions”.
- (l) Corporate fundraising means any transaction undertaken to raise debt or equity funds, or issue equity, and/or offer cash consideration to effect a transaction through the issuance of a public document, or other document (“the document”). It includes fundraisings<sup>2</sup>, takeovers, and schemes of arrangement.
- (m) Disclosure Document means a disclosure document as defined in the *Corporations Act 2001*.
- (n) Engaging party means the body or person(s) that requested the services of the assurance practitioner for the assurance engagement. The engaging party is ordinarily the responsible party, as defined in paragraph (pp) of this ASAE. References in this ASAE to “responsible party” are taken to include engaging party unless otherwise stated.
- (o) Entity means the entity whose securities are being offered for fundraising, or the entity that is undertaking or the subject of a takeover or scheme of arrangement.

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<sup>2</sup> See Section 700 of the *Corporations Act 2001*.

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- (p) Event(s) or transaction(s) means underlying event(s) or transaction(s) relating to a corporate fundraising or prospective financial information that:
- (i) is (are) primarily the subject of the document;<sup>3</sup> or
  - (ii) is (are) not the subject of the document but whose effect(s) impact the financial information.<sup>4</sup>
- (q) Financial information means financial information prepared by the responsible party included in, or to be included in the document, in the form of either:
- (i) historical financial information; and/or
  - (ii) pro forma historical financial information; and/or
  - (iii) pro forma forecast;
  - (iv) prospective financial information; and
- prepared on a standalone or aggregated basis.
- References in this ASAE to “financial information” are taken to mean the specific financial information on which the assurance practitioner intends to express an assurance conclusion.
- (r) Historical financial information means information expressed in financial terms in relation to a particular entity, which is derived primarily from that entity’s accounting system and relate to events occurring in past time periods or about conditions or circumstances at points in time in the past. It may be audited or unaudited and with or without adjustment (s). Historical financial information may be in the form of:
- (i) a complete set of financial statements<sup>5</sup> for a financial year that forms part of a financial report

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<sup>3</sup> For example, a proposed acquisition or divestment.

<sup>4</sup> For example, a business unit sold by the entity prior to the acquisition of another entity, which is the subject of the public document

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that has been audited in accordance with the *Corporations Act 2001*, or for any other purpose;

- (ii) a complete set of financial statements for a half-year that forms part of a financial report that has been audited or reviewed in accordance with *the Corporations Act 2001*, or for any other purpose; or
- (iii) a complete set of financial statements prepared for any purpose; or
- (iv) a single financial statement, or specific components, elements, accounts or items of a financial statement;<sup>6</sup> or
- (v) summary financial statements<sup>7</sup> derived from, and materially consistent with, an audited or reviewed financial report; or
- (vi) a set of financial statements prepared in accordance with a financial reporting framework.<sup>8</sup>

Adjustments made to historical financial information may relate to the correction of errors and uncertainties, and to

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<sup>5</sup> The concepts and discussions on complete set of financial statements relevant to an audit engagement are contained in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph Aus 13.1, and may be helpful in determining the components of a complete set of financial statements applicable to an assurance engagement.

<sup>6</sup> The concepts and discussions on a single financial statement, or specific components, elements, accounts or items of a financial statement relevant to an audit engagement are contained in ASA 805 *Special Considerations-Audits of Single Financial Statements, and Specific Elements, Accounts or Items of a Financial Statement*, and may be helpful in determining their composition that is applicable to an assurance engagement. Examples include a statement of financial position including related notes; or an account balance such as receivables.

<sup>7</sup> The concepts and discussions on summary financial statements relevant to an audit engagement are contained in ASA 810 *Engagements to Report on Summary Financial Statements*, paragraph Aus 4.1, and may be helpful in determining their composition that is applicable to an assurance engagement. Examples include summary statement of financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity, related notes and management's assertion statement.

<sup>8</sup> More examples of historical financial information other than a financial report, relevant to a review engagement are contained in ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* and may be helpful in determining their composition that is applicable to an assurance engagement. An example includes the entity's internal management accounts.

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ensure consistency with current accounting policies, or applicable Australian Accounting Standards.

- (s) Hypothetical assumptions means assumptions about future events, and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations. Hypothetical assumptions, by their nature, may not have a reasonable basis, or be supportable by appropriate evidence.
- (t) Investigating Accountant's Report means an assurance report prepared by an assurance practitioner on the financial information included, or to be included, in a section of a public document, ordinarily in close proximity to the financial information section, so as to assist investors and other interested third parties in making an informed evaluation of the recent financial performance, financial position, or prospects of the entity.
- (u) Limited assurance engagement means an assurance engagement where the objective of the assurance practitioner is to reduce the assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where the risk is greater than for a reasonable assurance engagement. A limited assurance engagement is commonly referred to as a review.
- (v) Listing Rules means the rules governing the listing of securities on a prescribed financial market such as the Australian Securities Exchange (ASX).<sup>9</sup>
- (w) Management means the person(s) with executive responsibility for the conduct of the operations or individual business units of the entity. For some entities, in some circumstances, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.
- (x) Materiality means, in relation to financial information, that if certain information is omitted, misstated, or not disclosed, it has the potential to affect decisions of users of

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<sup>9</sup> See the ASX website at <http://www.asx.com.au> for a complete set of the ASX Listing Rules.

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the document, or the discharge of accountability by the responsible party of the entity.

- (y) Material inconsistency means information within the document that materially contradicts the financial information the subject of the assurance report.
- (z) Misstatement of fact means information that is incorrectly stated or presented in the document. A material misstatement of fact may undermine the credibility of financial information that is the subject of the assurance report.
- (aa) Objectively reasonable assumptions means assumptions made by the responsible party as to future events and actions expected to take place at the date the prospective financial information is prepared. Such assumptions must have a “reasonable basis”<sup>10</sup> and be supportable by appropriate evidence. They are commonly referred to as best-estimate assumptions.
- (bb) Other document means a document provided to internal or external parties in relation to a corporate fundraising, or prospective financial information, which is not included in, or to be included in, a public document.
- (cc) Other information means information of a financial or non-financial nature included in the document that is not the subject of the assurance report.
- (dd) Prepared in accordance with the applicable financial reporting framework means the financial information included in the document, has been prepared and presented by the responsible party on the basis of the recognition and measurement principles contained in the financial reporting framework.
- (ee) Private Report means an assurance report prepared by an assurance practitioner that is not included, or to be included, in a public document, but which is prepared in connection with a corporate fundraising, or prospective financial information, for distribution to intended users.

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<sup>10</sup> See RG 170 *Prospective Financial Information* issued by the Australian Securities and Investments Commission (ASIC) which applies to prospective financial information included, or to be included in a public document issued in Australia.

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- (ff) Pro forma adjustments means adjustments applied to base financial information:
- (i) to illustrate the impact of a significant event(s) or transaction(s), as if the event had occurred, or the transaction had been undertaken, at an earlier date selected for the purposes of the illustration;
  - (ii) if the entity is being acquired, adjustments to make its basis of preparation of the financial information consistent with the applicable financial reporting framework (including accounting policies) of the acquiring entity;
  - (iii) to eliminate the effects of unusual or non-recurring transactions that are not part of the normal operations of the entity;
  - (iv) to reflect a transaction (other than the underlying transaction that is the subject of the document,) that occurred part way through the period covered by the financial information (for example, an business acquisition part way through the time period);
  - (v) other adjustments to allow for a “like-for-like” comparison across particular time periods; and/or
  - (vi) to reflect post financial reporting period end transactions.

Adjustments must be made with a reasonable basis and supported by appropriate evidence.

- (gg) Pro forma financial information means base (unadjusted) financial information that is adjusted to illustrate the impact of event(s) or transaction(s) on that base financial information, as if those event(s) or transaction(s) had occurred/been undertaken at an earlier date, a later date, or not at all. Pro forma financial information is prepared on a stated basis of preparation by the responsible party. Pro forma financial information may be either:
- (i) pro forma historical financial information has base financial information that is historical in nature,

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adjusted for significant subsequent events and other matters related to a corporate fundraising; or<sup>11</sup>

(ii) pro forma forecast financial information has base financial information that is either a forecast; or, a mix of historical and forecast financial information; adjusted for pro forma adjustments.<sup>12 13</sup>

(hh) Properly compiled means the process undertaken by the responsible party to gather, classify, summarise and present financial information to illustrate the impact of a significant event(s) or transaction(s) on base (unadjusted) financial information of the entity as if the event had occurred or the transaction had been undertaken, at a specified date.

(ii) Prospective financial information means financial information of a predictive character based on assumptions made by the responsible party about future events that may occur in the future, and/or on expected actions by the entity. Prospective financial information often illustrates the expected consequences if the events or actions were to occur (a “what-if” scenario) as of the date the financial information is prepared. Prospective financial information is prepared based on the applicable criteria of the responsible party. Prospective financial information may be in the form of a forecast, a projection, or a combination of both:

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<sup>11</sup> For example, an entity acquired another entity effective 31 January 20X1. The entity prepared its pro forma historical financial information as at 31 December 20X0 and for the period to 31 December 20X1, which included pro forma adjustments to show effects of the acquisition, as if the acquisition had occurred on 31 December 20X0.

<sup>12</sup> For example, if the financial information is prepared part way through the financial period, it may include part historical financial information, and part forecast financial information for the remainder of the financial period, adjusted by pro forma adjustments.

<sup>13</sup> For example, an entity has acquired another entity effective 31 January 20X1. As a consequence of the acquisition, the entity is expected to divest on 30 April 20X1 a business unit whose operations are not consistent with the combined entities’ business strategies and operations. The entity presented the impact of these two transactions as if they had occurred on 1 January 20X1 on its forecast earnings for the half-year ending 30 June 20X1 in the form of a pro forma forecast income statement for the same period. The base financial information of the pro forma forecast was the forecast earnings of the entity for the half-year ending 30 June 20X1, and the pro forma adjustments include adjustments (a) to remove the forecast earnings of the business unit to be divested and (b) to incorporate the forecast earnings of the acquired entity for the half-year.



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- (i) Forecast means prospective financial information prepared on the basis of the responsible party's best-estimate assumptions as to future events, which are expected to take place on the dates described, and the actions they expect to take as of the date the financial information is prepared. Given that the responsible party ordinarily reports and measures actual results against this forecast, it is commonly referred to as a "statutory forecast."
- (ii) Projection<sup>14</sup> means prospective financial information prepared on the basis of:
- ◆ hypothetical assumptions; or
  - ◆ a mixture of best-estimate and hypothetical assumptions.
- (iii) Combined Forecast and Projection means prospective financial information prepared on the basis of a forecast and an projection. An example is a one year forecast plus a five year projection.
- (jj) Public document means a disclosure document or other documentation issued to shareholders, unit holders, security holders or holders of a relevant interest in the entity (or which is provided to management of the entity) relating to the entity's securities on which it is intended will be made an investment decision.
- (i) When an offer of securities needs disclosure to investors,<sup>15</sup> the entity may use the following type of public documents:
- ◆ Prospectus is a full public document used in fundraisings prepared by an entity that is a corporation in accordance with relevant sections of the *Corporations Act 2001*.<sup>16</sup>

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<sup>14</sup> See RG 170 for more information on prospective financial information prepared in the form of a projection, which is applicable to financial information included in a public document. In Australia, a public document that includes a projection supported by material hypothetical assumptions is unlikely to have reasonable grounds and as such is ordinarily not permitted to be included in a public document.

<sup>15</sup> See Section 706 of the *Corporations Act 2001*.

<sup>16</sup> See Sections 710, 711, and 713 of the *Corporations Act 2001*.

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- ◆ Short-Form Prospectus is a prospectus that contains references to materials previously lodged with Australian Securities and Investments Commission (ASIC), instead of including in the body of the prospectus the relevant information discussed in such materials.<sup>17</sup> Investors are entitled to receive a copy of the materials that have been lodged with ASIC if they request them.
- (kk) Profile Statement is a brief statement that may be sent out with offers, with ASIC's approval, instead of a prospectus.<sup>18</sup> 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.
- (ll) Offer Information Statement is a document that may be used instead of a prospectus if it meets the criteria under the *Corporations Act 2001*.<sup>19</sup> It may also be referred to as a scheme document.
- (mm) Product Disclosure Statement (PDS) is a document used in fundraisings where the entity is a trust or other type of managed investment scheme.
- (nn) Reasonable assurance engagement means an assurance engagement where the objective of the assurance practitioner is to reduce the assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement as the basis for a positive form of expression of the assurance practitioner's conclusion. A reasonable assurance engagement is commonly referred to as an audit.
- (oo) Relevant Date means the time period after the issuance of the assurance report, and up to and including:
  - (i) the allotment date;
  - (ii) the effective date;

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<sup>17</sup> See Section 712 of the *Corporations Act 2001*.

<sup>18</sup> See Sections 705 and 721 of the *Corporations Act 2001*.

<sup>19</sup> See Section 709 of the *Corporations Act 2001* for the criteria as to when an Offer Information Statement may be used instead of a prospectus.

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- (iii) the implementation date; or
- (iv) in the case of a scheme of arrangement, the date of the shareholders/unit-holders meeting to vote on the scheme.
- (pp) Responsible party means ordinarily those charged with governance of the entity (ordinarily the Board of Directors), who are also responsible for the preparation and issuance of the financial information included in a document. It may mean the management of the entity in circumstances where the assurance practitioner has been required to provide assurance to those charged with governance in relation to financial information prepared by management. The responsible party may also be referred to as the engaging party, as defined in paragraph (n) of this ASAE.
- (qq) Securities means shares in a body, debentures in a body, or interests in a registered managed investment scheme, but do not cover a derivative or a market traded option.<sup>20</sup>
- (rr) Scheme of arrangement means an arrangement undertaken in accordance with Part 5.1 of the *Corporations Act 2001*.
- (ss) Source financial information means base financial information. Refer paragraph (i) of this ASAE for the definition.
- (tt) Stated basis of preparation means the recognition and measurement basis on which pro forma financial information has been prepared.
- (uu) Subsequent events means events occurring between the date of the assurance practitioner's work on the financial information being completed and the issuance of the assurance report; and facts that become known to the assurance practitioner after the date of the assurance report. Subsequent events may also be known as "new circumstances".
- (vv) Third parties means parties who will, or are intended to, receive the assurance report, including those charged with governance (where they are not the responsible party of the financial information); management (where they are not the

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<sup>20</sup> See *Corporations Act 2001*, section 92(3).

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responsible party of the financial information); banks and other financial institutions.

- (ww) Those charged with governance means the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.
- (xx) Takeover means the acquisition of control of listed or unlisted entities conducted in accordance with Chapter 6 of the *Corporations Act 2001*.

## **Requirements**

### **Ethical Requirements**

13. The assurance practitioner shall comply with relevant ethical requirements, including independence, in accordance with ASA 102.<sup>21</sup>

### **Quality Control**

14. The assurance practitioner shall establish and maintain a system of quality control in accordance with ASQC 1.<sup>22</sup>

### **Complying with Standards that are relevant to the engagement**

15. The assurance practitioner shall comply with this ASAE and other AUASB Standards relevant to the engagement.
16. The assurance practitioner shall not represent compliance with this ASE unless the assurance practitioner has complied with the requirements of both this ASAE and other AUASB Standards relevant to the engagement.

### **Inability to Comply with the Requirements of this ASAE**

17. Where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the assurance practitioner

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<sup>21</sup> See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

<sup>22</sup> See ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

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from complying with an essential procedure contained within a relevant requirement<sup>23</sup> in this ASAE, the assurance practitioner shall:

- (a) if possible, perform appropriate alternative procedures; and
- (b) document in the working papers:
  - (i) the circumstances surrounding the inability to comply;
  - (ii) the reasons for the inability to comply; and
- (c) justification of how alternative procedures achieve the objectives of the requirement.

18. When the assurance practitioner is unable to perform the appropriate alternative procedures, the assurance practitioner shall consider the implications for the assurance engagement.

## **Historical financial information**

### **Assurance Engagement Acceptance**

#### *Preconditions for Acceptance*

19. The assurance practitioner shall prior to agreeing the terms of the assurance engagement, determine whether the applicable financial reporting framework for the preparation of the historical financial information is acceptable, and obtain agreement from the responsible party. (Ref: Para. A5-A6)

- (a) that it understands and accepts the terms of the engagement, including the assurance practitioner's reporting responsibilities and type of assurance to be expressed;
- (b) that it acknowledges and understands its responsibility for:

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<sup>23</sup> The concepts and discussion on which requirements are relevant in the circumstances of the audit engagement are contained in *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (paragraphs 22 and Aus 23.1), and may be helpful in determining how to ensure compliance with relevant requirements for assurance engagements related to a corporate fundraising.

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- (i) the preparation of the historical financial information in accordance with the applicable criteria;
  - (ii) the selection, development and adequate disclosure of the applicable criteria in the document,
  - (iii) the disclosure of the time period covered by the historical financial information;
  - (iv) the preparation of the document<sup>24</sup> in which the financial information will be presented;
  - (v) such internal control as the responsible party determines is necessary to enable the preparation of the financial information that is free from material misstatement; and
- (c) that it will provide the assurance practitioner with:
- (i) access to all information relevant to the historical financial information;
  - (ii) any additional information requested by the assurance practitioner;
  - (iii) unrestricted access to those within the entity from whom the assurance practitioner determines it necessary to obtain evidence, including where appropriate, the responsible party's third party experts; and
  - (iv) a written representation letter covering all matters requested by the assurance practitioner within the timeframe required.

**Other Factors Affecting Engagement Acceptance**

20. The assurance practitioner shall accept the engagement only when:  
(Ref: Para. A7)

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<sup>24</sup> The *Corporations Act 2001* places specific requirements on directors in relation to the preparation of public documents, including presentation of financial information included therein. For example, see section 92(3).

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- (a) on the basis of preliminary knowledge of the assurance engagement circumstances, nothing has come to the assurance practitioner's attention to indicate that:
    - (i) the requirements of the relevant ethical principles described in ASA 102, will not be satisfied;
    - (ii) the applicable criteria to be applied in the preparation of the historical financial information is unacceptable or misleading for its intended purpose;
  - (b) the basis upon which the engagement is to be performed has been agreed through establishing that the preconditions for an assurance engagement are present;
  - (c) the assurance practitioner is satisfied that the responsible party possess the necessary professional competencies;
  - (d) the assurance practitioner has the capabilities, competence and necessary qualifications to perform the engagement; and
  - (e) the assurance practitioner believes that the assurance report will be used for its intended purpose.
21. If the preconditions for the engagement, as set out in paragraph 19 of this ASAE are not present, the assurance practitioner shall discuss the matter with the responsible party. If changes cannot be made to meet the preconditions, the assurance practitioner shall not accept the engagement as an assurance engagement unless required by applicable law or regulation.
22. The assurance practitioner shall agree to perform any non-assurance services in connection with the assurance engagement only in accordance with relevant ethical requirements and applicable professional standards,<sup>25</sup> having particular regard to independence. (Ref: Para. A8)

**Agreeing on the Terms of the Assurance Engagement**

23. The assurance practitioner shall agree the terms of the assurance engagement with the responsible party in writing. (Ref: Para. A9-A10)

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<sup>25</sup> See APES 110 *Code of Ethics for Professional Accountants*, (November 2009) issued by the Accounting Professional and Ethical Standards Board.

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24. The agreed terms of the assurance engagement shall include:  
(Ref: Para. A10-A13)
- (a) the objective and scope of the assurance engagement, including:
    - (i) the assurance practitioner's understanding of the purpose of the assurance engagement;
    - (ii) confirmation that the assurance practitioner will conduct the engagement in accordance with this ASAE;
    - (iii) the nature, source, time period covered, and purpose, of the historical financial information;
    - (iv) a statement that the assurance practitioner is not responsible for the preparation of the historical financial information;
    - (v) the proposed wording of the assurance opinion and type of assurance (limited or reasonable) that is expected to be provided on the historical financial information;
    - (vi) the engagement cannot be relied upon to identify fraud(s), error(s), illegal action(s) or other irregularities that may exist within the entity;
  - (b) a summary of assurance procedures to be performed;
  - (c) the responsibilities of the assurance practitioner, including:
    - (i) compliance with relevant ethical requirements, including independence;
    - (ii) performing assurance procedures on the financial information to determine if it has been prepared in accordance with the applicable criteria;
    - (iii) issuing a written report for the intended purpose;
    - (iv) where applicable, providing consent to the responsible party to include the assurance



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practitioner's name and assurance report in the document;

- (d) the responsibilities of the responsible party including those set out in paragraph 19 of this ASAE; and
- (e) such other terms and conditions that the assurance practitioner determines are appropriate in the engagement circumstances.

**Changes in the Terms of the Assurance Engagement** (Ref: Para. A14-A17)

- 25. The assurance practitioner shall not agree to a change in the terms of the assurance engagement where there is not a reasonable justification for doing so. If such a change is made, the assurance practitioner shall not disregard evidence that was obtained prior to the change.
- 26. If the terms of the engagement, the assurance practitioner and the responsible party shall agree on, and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.
- 27. If the assurance practitioner is unable to agree to a change of the terms of the engagement, and is not permitted by the responsible party to continue the original engagement, the assurance practitioner shall:
  - (a) withdraw from the engagement where possible under applicable law or regulation; and
  - (b) determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners, or regulators.

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**Planning the Assurance Engagement**

28. The assurance practitioner shall plan the assurance engagement in accordance with:
- (a) ASRE 2405, for reviews of historical financial information; or
  - (b) ASRE 3000, for assurance procedures other than reviews or audits of historical financial information; and
  - (c) this ASAE, for other assurance engagement work performed on the financial information.

*Planning Activities*

29. The assurance practitioner shall use professional judgement to determine the nature, timing, and extent of procedures to perform on the financial information, in order to achieve the engagement objectives.
30. The assurance practitioner's planning considerations shall include:  
(Ref: Para. A19)
- (a) what the agreed terms of engagement require the assurance practitioner to opine on;
  - (b) setting the scope, timing and direction of the assurance engagement;
  - (c) the type of underlying event(s) or transaction(s) that require the preparation of the financial information, and the extent of understanding required of the nature of the entity,
  - (d) obtaining an understanding of financial information including its nature, type, source, time period covered, adjustments made, applicable criteria used, and its intended use, sufficient to design and perform assurance procedures;
  - (e) any previous dealings with the entity, including whether the assurance practitioner has audited or reviewed prior period financial report(s);

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- (f) whether the financial information was previously audited or reviewed by another assurance practitioner, and if so, what type of audit or review opinion was expressed;
- (g) whether, based on preliminary knowledge obtained through the planning process, the applicable criteria used in the preparation of the historical financial information is not misleading for its intended purpose; (Ref: Para. A20)
- (h) whether the assurance practitioner will need to contact the entity's auditor or other assurance practitioner;
- (i) the engagement team resources required for specific engagement areas and how they will be managed, directed and supervised;
- (j) whether the use of an expert(s) is/are required;
- (k) setting materiality levels for evaluating whether the financial information is free of material misstatement;<sup>26</sup>
- (l) assurance engagement risk; and
- (m) in the case of a reasonable assurance engagement, obtaining an understanding of internal control relevant to the preparation of the financial information.

*Reliance on the work of another Assurance Practitioner* (Ref: Para. A21)

31. If the assurance practitioner plans to place reliance<sup>27</sup> on financial information that has been audited or reviewed by another assurance practitioner, the assurance practitioner shall:
- (a) consider the scope, professional competence, work performed and conclusion expressed by the other assurance practitioner;
  - (b) determine whether there is a need to perform additional procedures on the financial information; and

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<sup>26</sup> The concepts and discussions on materiality in an audit engagement are contained in ASA 320 *Materiality in Planning and Performing an Audit* and may be helpful in determining the materiality levels for corporate fundraising engagements.

<sup>27</sup> The concepts and discussions on auditor's using the work of other experts are contained in ASA 620 *Using the Work of an Auditor's Expert* and may be helpful in determining the extent of reliance.

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- (c) be satisfied that the work is adequate for the assurance practitioner's purposes.
32. Where the other assurance practitioner's opinion was modified:
- (a) consider the assurance practitioner's ability to undertake the engagement in accordance with the agreed terms; and
  - (b) consider the potential impact, if any, on the assurance procedures to be performed.

**Performing the Engagement**

*Assurance Procedures*

33. The assurance practitioner shall use professional judgement to design and perform procedures in order to obtain sufficient appropriate evidence on the financial information which to base an assurance conclusion in accordance with the engagement circumstances. (Ref: Para. A22-A23)
34. The assurance practitioner shall design and perform procedures of a:
- (a) limited assurance nature on historical financial information in accordance with ASRE 2405 and this ASAE; or (Ref: Para. A24)
  - (b) reasonable assurance nature on historical financial information in accordance with ASAE 3000 and this ASAE.
35. The assurance practitioner shall remain alert throughout the engagement for any event(s), condition(s), transaction(s), or error(s) that may:
- (a) cast doubt over the reliability of the information used as evidence for the historical financial information; and/or
  - (b) require changes or additions to the assurance procedures to resolve.

*Using the Work of an Expert*

36. When using the work of an expert, the assurance practitioner shall:

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- (a) evaluate whether the expert has the necessary competence, capabilities, and objectivity for the assurance practitioner's purposes;
- (b) evaluate the expert's independence;
- (c) obtain a sufficient understanding of the field of expertise of the expert in order to evaluate the expert's work;
- (d) determine if the nature, scope and objectives of the expert's work is adequate for the purposes of the assurance engagement, and in accordance with applicable AUASB Standards;<sup>28</sup> (Ref: Para. A25)
- (e) determine if the expert's work impacts on the assurance practitioner's conclusion; and
- (f) where applicable, determine if the expert has consented to the inclusion of the expert's report in the document.

*Adjustments identified by the Assurance Practitioner*

- 37. When during the conduct of the engagement a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe that it is necessary to make a material adjustment to the historical financial information for it to be prepared in accordance with the applicable criteria, the assurance practitioner shall communicate this matter as soon as practicable to the responsible party. (Ref: Para. A26)
- 38. Where the responsible party refuses to make the adjustment, the assurance practitioner shall determine the implications for the engagement and the assurance report. (Ref: Para. A27)

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

(Ref: Para. A28-A30)

- 39. The assurance practitioner shall evaluate whether they have obtained sufficient appropriate evidence on which to express an assurance conclusion on the historical financial information, in the context of

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<sup>28</sup> See ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, paragraph 28; ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraphs 47-55, and ASA 620 *Using the Work of an Auditor's Expert*.

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the engagement including whether that historical financial information in the document:

- (a) is materially misstated; and
- (b) adequately refers to, or describes, the applicable criteria.<sup>29</sup>

**Other Information included in the document** (Ref: Para. A31-A34)

40. When the document containing the historical financial information and assurance report include other information, the assurance practitioner shall request from the responsible party a copy of that document and read its entire contents to identify any material inconsistencies, or material misstatements of fact, with the historical financial information.

41. If the assurance practitioner:

- (a) identifies a material inconsistency between the other information and the financial information; or
- (b) becomes aware of a material misstatement of fact in that other information that is related to the financial information; or
- (c) identifies a misleading or deceptive statement;

the assurance practitioner discusses the matter(s) identified with the responsible party and takes further action as appropriate, including determining the implications for the engagement and the assurance report.

**Going Concern Considerations** (Ref: Para. A37-A39)

42. The assurance practitioner shall determine if an assessment of the entity's going concern considerations is relevant to the assurance engagement.<sup>30</sup>

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<sup>29</sup> The concepts and discussions on the sufficiency and appropriates of evidence related to an audit engagement are contained in *ASA 500 Audit Evidence* and may be helpful in evaluating the evidence for corporate fundraising engagements.

<sup>30</sup> The concepts and discussions on the going concern assessment relevant to an audit engagement are contained in *ASA 570 Going Concern*, and may be helpful in performing a going concern assessment in an assurance engagement. Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, paragraphs 25-26 contains relevant guidance on the going concern assessment.

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43. If the assurance practitioner determines that an assessment of the entity's going concern is relevant, the assurance practitioner shall perform such an assessment in order to obtain sufficient appropriate evidence regarding the appropriateness of the responsible party's use of the going concern assumption in the preparation of the historical financial information.
44. If the assurance practitioner concludes the entity is not a going concern, the assurance practitioner shall consider the implications for the engagement and the assurance report.

**Consideration of Events up to the date of the Assurance Report**

(Ref: Para. A40)

45. The assurance practitioner shall consider the impact of any event, transaction, or error of which they become aware, that may materially impact the historical financial information, for the time period up to and including the date of the assurance report.
46. The assurance practitioner shall discuss with the responsible party any such event(s) and/or transaction(s) identified in paragraph 45 of this ASAE, with a view to concluding as to whether their effect on the historical financial information is material, and needs to be adjusted and/or disclosed in:
- (a) the historical financial information;
  - (b) the document; and/or
  - (c) the assurance report.

**Consideration of Events Identified after the date of Assurance Report**

(Ref: Para. A41-A42)

47. If the assurance practitioner becomes aware of events, transactions or errors after the date of the issuance of the assurance report and before the relevant date that may have cause the assurance practitioner to amend the assurance report had the assurance practitioner known of them at the date of that assurance report, the assurance practitioner shall:
- (a) discuss such events and/or transactions with the responsible party; and

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- (b) consider what further action is appropriate in the engagement circumstances.
48. The assurance practitioner shall revoke any consent previously agreed to or provided, to include the assurance report in the document, if the matter(s) referred to in paragraph's 46 and/or 47 are not, in the assurance practitioner's judgement, appropriately addressed by the responsible party.

**Written Representations**

49. Where the assurance practitioner has not already received written representations from the responsible party in respect of the following matters, the assurance practitioner shall request a written representation letter from the responsible party containing the following: (Ref: Para. A43-A44)
- (a) acceptance of the engagement letter terms and conditions;
  - (b) acknowledgement that the assurance practitioner's engagement has been conducted in accordance with this ASAE;
  - (c) acknowledgement that the engagement terms included the type of engagement the assurance practitioner would conduct and the type of assurance conclusion that would be expressed;
  - (d) an acknowledgement of the responsible party's responsibilities for:
    - (i) the selection, preparation and presentation of the historical financial information based on the applicable criteria;
    - (ii) the preparation and issuance of the document in which the historical financial information is included;
    - (iii) all other information that is not the subject of the engagement, but which is included in the document;
    - (iv) for disclosing in the document all information required by applicable law or regulation;



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- (v) providing the assurance practitioner with all requested and relevant information, including any matter, event, adjustment, or transaction that may be relevant to the historical financial information, as well as access to all financial records, related data, documentation and other information requested or necessary for the completion of the engagement;
  - (vi) the application of the entity's recognition and measurement accounting policies have been consistently applied in the preparation of the historical financial information;
  - (vii) confirmation that the entity has established and maintained an adequate internal control structure in order to facilitate the preparation of reliable historical financial information;
  - (viii) advising the assurance practitioner of any matter, event or issue that has arisen or been discovered subsequent to the preparation of the financial information that may impact, or require adjustment to, the historical financial information;
  - (ix) providing the assurance practitioner with a listing of all immaterial adjustments, or known uncorrected misstatements, that have not been made in the historical financial information; together with an acknowledgement that they are responsible for concluding that such adjustments are immaterial; and
- (e) such other written representations that the assurance practitioner determines is appropriate in the engagement circumstances.
50. The date of the representation letter shall be as near as practicable to, but not after, the date of the assurance report.
51. The assurance practitioner shall evaluate the representations received from the responsible party for their reasonableness and consistency with other information and evidence obtained.

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52. If one or more of the requested written representations are not provided, or the assurance practitioner has sufficient doubt about the competence, integrity or reliability of those providing the written representations, the assurance practitioner shall:
- (a) discuss the matter with the responsible party;
  - (b) evaluate the implications on the reliability of evidence obtained; and
  - (c) take appropriate actions, including determining the effect on the assurance conclusion and the assurance report.  
(Ref: Para. A45-A47)

**Forming the Assurance Conclusion** (Ref: Para. A48)

53. The assurance practitioner shall form a conclusion about whether the historical financial information is free from material misstatement. In forming the conclusion the assurance practitioner shall consider:
- (a) the assurance practitioner's conclusion in paragraph 39 of this ASAE regarding the sufficiency and appropriateness of evidence obtained; and
  - (b) an evaluation of whether any uncorrected misstatements are material, either individually or in aggregate to the historical financial information.
54. If the assurance practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists, and the assurance practitioner shall determine whether it is appropriate to continue the engagement. If the assurance practitioner has determined it is appropriate to continue the engagement, the assurance practitioner shall express a qualified or disclaimer of conclusion, as appropriate.

**Preparing the Assurance Report**

55. The assurance practitioner shall provide a written assurance report to the responsible party containing a clear expression of the assurance practitioner's conclusion on the historical financial information included in the document. (Ref: Para. A49-A50)
56. If applicable, the assurance practitioner's conclusion on each type of financial information shall be clearly separated within the assurance report.

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*Basic Elements of the Assurance Report*

57. The assurance report shall include the following basic elements:  
(Ref: Para. A51-A52)
- (a) a title that clearly indicates the report is an independent assurance report;
  - (b) an addressee;
  - (c) a scope/background section that:
    - (i) identifies the purpose of the report; and the fact that it will be included in the document;
    - (ii) identifies the historical financial information being reported on, the time period covered by each type;
    - (iii) refers to the section of the document that outlines the applicable criteria for the preparation of the historical financial information;
    - (iv) where applicable, states that the assurance report has been prepared for inclusion in the document and, accordingly, is not suitable for any other purpose;
    - (v) a statement that identifies the entity that is subject to the corporate fundraising, the responsible party and their responsibilities and the assurance practitioner's responsibilities;
    - (vi) a statement that the assurance engagement was performed in accordance with this ASAE;
    - (vii) a statement that the firm of which the assurance practitioner is a member applies ASQC 1; and
    - (viii) a statement that the assurance practitioner has complied with relevant ethical requirements;
  - (d) a clearly identified section that details for the historical financial information:

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- (i) whether it has been previously audited or reviewed by another assurance practitioner, and the type of opinion expressed;
- (ii) the source of the financial information and that the responsible party is responsible for its preparation;
- (iii) the type of engagement conducted by the assurance practitioner, the level of assurance and the type of conclusion planned; and
- (iv) an informative summary of assurance procedures performed as the basis for the assurance practitioner's conclusion on the historical financial information;
- (e) the assurance practitioner's conclusion on the historical financial information:
  - (i) in a limited assurance engagement:
    - ◆ with a unmodified conclusion, that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the financial information does not present fairly, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and accounting policies adopted by the entity and the basis of preparation, as disclosed in section [x] of the document; or
    - ◆ with a modified conclusion, a clear description of all the reasons for the modification properly described, with the effects appropriately quantified and disclosed in the assurance report;
  - (ii) in a reasonable assurance engagement:
    - ◆ with a unmodified conclusion, the conclusion shall be in a positive form; and shall state that the historical financial information is presented fairly, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and

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- accounting policies adopted by the entity and the basis of preparation, as disclosed in section [x] of the document; or
  - ◆ with a modified conclusion, a clear description of all the reasons for the modification properly described, with the effects appropriately quantified and disclosed in the assurance report;
  - (f) a section covering events up to and including the date of the assurance report:
    - (i) including a statement confirming whether any material transactions or events outside the entity's ordinary business have come to the assurance practitioner's attention that would require comment, or adjustment to, the historical financial information, or cause such historical financial information to be misleading or deceptive; and
    - (ii) if applicable, their potential impact;
  - (g) an independence, or disclosure of interest, statement;
  - (h) the assurance practitioner's signature;
  - (i) the date of the assurance practitioner's report; and
  - (j) the assurance practitioner's address.
58. If the assurance practitioner is required by law or regulation to use a specific layout or wording in the assurance report, the assurance report shall refer to compliance with this ASAE or other AUASB Standards only if the assurance report includes, a at minimum, each of the elements identified in paragraph 57 of this ASAE.

*Unmodified and Modified Conclusions*

Unmodified conclusions (Ref: Para. A54-A55)

59. The assurance practitioner shall express an unmodified conclusion when the assurance practitioner concludes:

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- (a) in the case of a reasonable assurance engagement, that the historical financial information is prepared, in all material respects, in accordance with the applicable criteria; or
- (b) in the case of a limited assurance engagement, that, based on the procedures performed, nothing has come to the attention of the assurance practitioner that causes the assurance practitioner to believe that the historical financial information is not prepared, in all material respects, in accordance with the applicable criteria.

Modified conclusions (Ref: Para. A56-A60)

60. The assurance practitioner shall express a modified conclusion when the following circumstances exist and, in the assurance practitioner's professional judgement, the effect of the matter is or may be material:
- (a) when the assurance practitioner's conclusion is that the historical financial information is not free from material misstatement. In such cases, the assurance practitioner shall express a qualified or adverse conclusion;
  - (b) when the assurance practitioner's conclusion is the effects, or possible effects, of a matter are not so material or pervasive as to require an adverse conclusion or a disclaimer of conclusion. In such cases, the assurance practitioner shall express a qualified conclusion;
  - (c) when there has been a material scope limitation and the possible effect is so pervasive and material that the assurance practitioner concludes that no level of assurance can be provided. In such cases, the practitioner shall express a qualified conclusion or a disclaimer of conclusion; or
  - (d) when the assurance practitioner is unable to obtain sufficient appropriate evidence on which to base the conclusion, and the assurance practitioner concludes that the possible effects of the undetected matters, if any, that cause the historical financial information not to be properly prepared, could be material and pervasive. In such cases, the assurance practitioner shall express a disclaimer of conclusion.

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61. If the assurance practitioner expresses a modified conclusion because of a scope limitation, but is also aware of a matter(s) that causes the financial information to be materially misstated, the assurance practitioner shall include in the assurance report a clear description of both the scope limitation and the matter(s) that causes that the financial information to be materially misstated.

Use of Going Concern Assumption Appropriate but a Materially Uncertainty Exists (Ref: Para. A61-A63)

62. If the assurance practitioner concludes there is a material uncertainty related to events or conditions that individually or collectively may cast significant doubt on the entity's ability to continue as a going concern, the assurance practitioner shall:
- (a) express a qualified or adverse conclusion, as appropriate, in the assurance report when the responsible party does not make appropriate changes in the document; or
  - (b) include an Emphasis of Matter Paragraph in the assurance conclusion when the responsible party makes appropriate changes in the document.<sup>31</sup>

**Consent to the Inclusion of the Assurance Report in a Public Document**  
(Ref: Para. A64-A66)

63. The assurance practitioner shall consider applicable law or regulation when providing consent in writing to the inclusion of the assurance report in another document.
64. Where the assurance practitioner considers it inappropriate for the assurance report to be included in the document, consent shall either not be provided, or be revoked prior to the relevant date of the document's release.

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<sup>31</sup> The concepts and discussions on the circumstances under which an emphasis of matter paragraph be in an auditor's report are contained in ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* and may be helpful in assisting the assurance practitioner decide if it is appropriate for the assurance engagement relating to corporate fundraisings.

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**Documentation**

65. The assurance practitioner shall prepare documentation, on a timely basis, of all matters that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement to understand: (Ref: Para. A67-A68)
- (a) the nature, timing and extent of the procedures performed to comply with this ASAE;
  - (b) the results of the procedures performed, and the evidence obtained; and
  - (c) significant matters arising during the engagement, the conclusion reached thereon, and significant professional judgements made in reaching those conclusions.

**Pro Forma Historical Financial Information**

66. Paragraphs 67 to 75 of this ASAE deal with additional special considerations in the application of the Historical Financial Information requirements in paragraph's 19 to 65(inclusive) to historical financial information that has been adjusted for pro forma transactions and associated adjustments resulting in pro forma historical financial information.

**Assurance Engagement Acceptance**

*Preconditions for Acceptance*

67. In addition to the requirements in paragraph 19 of this ASAE, the assurance practitioner shall prior to agreeing the terms of the assurance engagement, obtain the agreement from the responsible party that it accepts its responsibility for selecting:
- (a) the source of the base financial information that is used, and that such a source will be historical financial information;
  - (b) the basis of preparation for the pro forma historical financial information; and
  - (c) the pro forma transactions and associated adjustments to be made to the historical financial information.



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**Agreeing on the Terms of the Assurance Engagement**

68. In addition to the requirements in paragraph 24(c) of this ASAE, the agreed terms of the assurance engagement shall include the following assurance practitioner responsibilities: (Ref: Para. A69)
- (a) the assurance practitioner will provide limited assurance on the pro forma historical financial information; and
  - (b) the assurance practitioner is responsible for performing assurance procedures on the pro forma financial information to determine if it has been prepared in accordance with the stated basis of preparation.

**Planning the Assurance Engagement**

*Planning Activities*

69. In addition to the requirements in paragraph 30 of this ASAE the assurance practitioner's planning considerations shall include: (Ref: Para. A70)
- (a) determining the source of the base financial information and it has been previously audited or reviewed, and what type of opinion was issued; and
  - (b) obtaining an understanding of the basis for the pro forma transactions and associated adjustments.

**Performing the Engagement**

*Assurance Procedures*

70. In addition to the requirements in paragraph's 33 and 34 of this ASAE, the assurance practitioner shall design and perform the following procedures on the pro forma historical financial information:(Ref: Para. A71)
- (a) If the source of the base financial information has not been previously audited or reviewed, perform such procedures as is necessary to obtain sufficient appropriate evidence on which to rely for the assurance engagement purposes;
  - (b) determine whether the pro forma transactions and pro forma adjustments are:

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- (i) consistent with the stated basis of preparation and with the entity's recognition and measurement accounting policies;
  - (ii) attributable to the underlying event(s) or transaction(s);
  - (iii) have a reasonable basis; and
  - (iv) are mathematically correct;
- (c) determine whether the resultant pro forma financial information reflects the results of applying the pro forma transactions and associated adjustments to the base financial information;
- (d) identify whether any material adjustments are necessary to materially reflect the effects of the corporate fundraising transaction, and/or to ensure the pro forma historical financial information is not misleading, and:
- (i) if such an adjustment is required, the assurance practitioner shall discuss the matter with the responsible party; and
  - (ii) if the adjustment is not made, the assurance practitioner shall consider the implications for the engagement and the assurance report; and
- (e) whether the stated basis of preparation for the pro forma forecast is not misleading for its intended purpose.

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

71. In addition to the requirements in paragraph 39 of this ASAE, the assurance practitioner shall evaluate whether they have obtained sufficient appropriate evidence<sup>32</sup> on which to express an assurance conclusion on the pro forma historical financial information, in the context of the engagement including whether that financial information in the document is:

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<sup>32</sup> The concepts and discussions on the sufficiency and appropriateness of evidence related to an audit engagement are contained in ASA 500 *Audit Evidence* and may be helpful in evaluating the evidence for corporate fundraising engagements.

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- (a) materially misstated on the stated basis of the pro forma transactions and associated adjustments; and
- (b) adequately refers to, or describes the stated basis of preparation.

**Written Representations**

72. In addition to the requirements in paragraph 49 of this ASAE, the assurance practitioner shall request the responsible party to include in the written representation letter an acknowledgement of their responsibility for:
- (a) the preparation of the pro forma historical financial information for the time periods stated, in accordance with the stated basis of preparation;
  - (b) selecting the stated basis of preparation of the pro forma historical financial information;
  - (c) selecting and applying the pro forma transactions and associated adjustments; and
  - (d) where applicable, ensuring that any assumptions used have objectively reasonable grounds for inclusion in the pro forma historical financial information.

**Forming the Assurance Conclusion**

73. In addition to the requirements in paragraph 53 of this ASAE, the assurance practitioner shall form a conclusion about whether the pro forma historical financial information is free from material misstatement, and prepared on the basis stated. In forming the conclusion the assurance practitioner shall consider:
- (a) the assurance practitioner's conclusion in paragraph 71 of this ASAE regarding the sufficiency and appropriateness of evidence obtained;
  - (b) whether there are any uncorrected misstatements are material, either individually or in aggregate to the pro forma historical financial information;

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- (c) whether the pro forma historical financial information has been properly prepared on basis of the pro forma transactions and associated adjustments; and
  - (d) whether the entity has been consistent, and complied with, the recognition and measurement accounting policies disclosed in the document.
74. If the assurance practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists, and the assurance practitioner shall determine whether it is appropriate to continue the engagement. If the assurance practitioner has determined it is appropriate to continue the engagement, the assurance practitioner shall express a qualified or disclaimer of conclusion, as appropriate.

**Preparing the Assurance Report**

*Basic Elements of the Assurance Report*

75. In addition to the requirement in paragraph 57 of this ASAE, the assurance report shall include the following:
- (a) statements in the scope/background section that:
    - (i) identifies the source of the historical financial information used as the base for the pro forma historical financial information;
    - (ii) identifies whether the historical financial information has been previously audited or reviewed; and
    - (iii) refers to the relevant section in the document which includes the relevant disclosures that explain the basis of preparation of the pro forma historical financial information;
  - (b) a statement by the assurance practitioner that:
    - (i) the assurance engagement did not include:
      - ◆ updating any previously audited or reviewed financial information that may have been used in the preparation of the pro forma historical financial information; or

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- ◆ an audit of the pro forma historical financial information;
- (c) the assurance practitioner's conclusion on the pro forma historical financial information:
  - (i) if the engagement is a limited assurance engagement, and has an unmodified conclusion, a statement that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the pro forma historical financial information set out in the document does not present fairly, in all material respects, the pro forma historical financial information of the entity on the basis of the pro forma transactions and associated adjustments described in the document, and in accordance with the accounting policies adopted by the entity and also described in the document; or
  - (ii) if the engagement is a limited assurance engagement, and has an modified conclusion, includes a clear description of all the reasons for the modification properly described, with the effects appropriately quantified and disclosed in the assurance report.

**Pro forma Forecast**

76. Paragraph's 77 to 92 inclusive of this ASAE deal with additional special considerations in the application of historical financial information requirements in paragraph's 19 to 65 (inclusive) of this ASAE, to financial information in the form of:
- (a) a forecast, that is adjusted for pro forma transactions and associated adjustments; or
  - (b) a mixture of historical financial information and a forecast; adjusted for pro forma transactions and associated adjustments.

The historical financial information requirements apply to the extent that the pro forma forecast includes historical financial information. For a forecast that does not include pro forma transactions adjustments, and is prepared solely on the basis of the responsible

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party's assumptions, refer to paragraphs 94 to 142 inclusive of this ASAE.

**Assurance Engagement Acceptance**

*Preconditions for Acceptance*

77. In addition to the requirements in paragraph 19 of this ASAE, the assurance practitioner shall prior to agreeing the terms of the assurance engagement, obtain agreement from the responsible party: (Ref: Para.A72)
- (a) that it understands and accepts its responsibility for the terms of the engagement including the assurance practitioner's reporting responsibilities and that the type of assurance to be expressed will be limited;
  - (b) that it acknowledges and understands its responsibility for selecting:
    - (i) the source of the base financial information that is used;
    - (ii) the basis of preparation of the pro forma forecast; including that the assumptions used are objectively reasonable and do not include material hypothetical assumptions; and
    - (iii) the pro forma transactions and associated adjustments to be made to the base financial information.

**Other Factors Affecting Engagement Acceptance**

78. In addition to the requirements in paragraph 20 of this ASAE, the assurance practitioner shall accept the engagement only when:
- (a) on the basis of preliminary knowledge of the assurance engagement circumstances nothing has come to the assurance practitioner's attention to indicate that the:
    - (i) pro forma forecast has been prepared on the basis of clearly unrealistic assumptions, hypothetical assumptions only, or includes material hypothetical assumptions; or

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- (ii) applicable criteria to be applied in the preparation of the pro forma forecast is unacceptable.

**Agreeing on the Terms of the Assurance Engagement**

79. In addition to the requirements in paragraph 24 of this ASAE, the agreed terms of the assurance engagement shall include:
- (a) the objective and scope of the assurance engagement, including:
    - (i) the nature, source, time period covered, and purpose, of the pro forma forecast, which has been prepared by the responsible party;
    - (ii) a statement that the assurance practitioner will disclaim responsibility for any reliance on the assurance report, or on the pro forma forecast to which it relates, to any party other than the responsible party, or for any purpose other than that for which the assurance report was prepared;
    - (iii) the proposed wording of the assurance opinion, including that the type of assurance that is expected to be provided is limited assurance in respect of:
      - ◆ whether the responsible party's best-estimate assumptions provide an objectively reasonable basis for the preparation of the pro forma forecast; and
      - ◆ whether the preparation of the pro forma forecast is properly prepared in accordance with the applicable criteria; and
      - ◆ whether the pro forma forecast itself is unreasonable;
  - (b) the following assurance practitioner responsibilities:  
(Ref: Para. A73)
    - (i) for performing assurance procedures on the pro forma forecast to determine if it has been properly

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- prepared in accordance with the stated basis of preparation;
- (ii) examining the reasonableness of any assumptions used by the responsible party as the basis of preparation of the pro forma forecast; and
- (iii) determining whether the pro forma forecast itself is unreasonable.

**Planning the Assurance Engagement**

*Planning Activities*

80. In addition to the requirements in paragraph 30 of this ASAE, the assurance practitioner's planning considerations shall include:  
(Ref: Para. A74)
- (a) the nature of the base financial information, and, if applicable, whether it has been previously audited or reviewed, and the type of opinion issued;
  - (b) if the base financial information comprises historical financial information, and it has not been previously audited or reviewed, to design such procedures as is necessary to obtain sufficient appropriate evidence on which to rely for the assurance engagement purposes;
  - (c) any previous dealings with the entity, including whether the assurance practitioner has:
    - (i) audited or reviewed prior period financial report(s) that may have been used as source data for the base financial information;
    - (ii) an understanding of the accuracy of previously prepared pro forma forecasts by the responsible party as compared to actual results;
  - (d) obtaining an understanding of the pro forma forecast, including its time period covered, underlying assumptions, intended purpose, and extent to which it is affected by the responsible party's judgements, sufficient to design and perform assurance procedures;



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- (e) the reliability of the source of the base financial information;
- (f) obtaining an understanding of the entity sufficient to be able to evaluate whether the responsible party has identified all material assumptions required for the preparation of the pro forma forecast; and
- (g) whether, based on preliminary knowledge obtained through the planning process, the applicable criteria used in the preparation of the pro forma forecast is not misleading for its intended purpose;
- (h) obtaining an understanding of the basis for the pro forma transactions and associated adjustments.

**Performing the Engagement**

*Assurance Procedures*

81. In addition to the requirements in paragraph's 33 and 34 of this ASAE, the assurance practitioner shall design and perform the following procedures on the pro forma forecast: (Ref: Para. A75-A79)
- (a) if the source of the base financial information has been audited or reviewed, including
    - (i) whether it has been extracted from an appropriate source, and whether it has been previously audited or reviewed, and if so, the type of opinion expressed; or
    - (ii) if the base financial information comprises historical financial information, and it has not been previously audited or reviewed, perform such procedures as is necessary to obtain sufficient appropriate evidence on which to rely for the assurance engagement purposes;
  - (b) consider the reasonableness and appropriateness of the time period covered by the pro forma forecast;
  - (c) determine whether the pro forma transactions and associated adjustments are:

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- (i) consistent with the stated basis of preparation of the pro forma financial information and with the entity's recognition and measurement accounting policies;
- (ii) attributable to the underlying event(s) or transaction(s);
- (iii) have a reasonable basis; and
- (iv) are mathematically correct;
- (d) determine whether any assumptions used are:
  - (i) based on best-estimate assumptions and not hypothetical assumptions;
  - (ii) are supported by appropriate evidence;
  - (iii) are based on grounds that are objectively reasonable;
  - (iv) consistent with the stated basis of preparation of the pro forma financial information and with the entity's recognition and measurement accounting policies;
  - (v) attributable to the underlying event(s) or transaction(s);
  - (vi) have a reasonable basis; and
  - (vii) are mathematically correct;
- (e) determine whether the resultant pro forma financial information reflects the results of applying the pro forma transactions, adjustments and assumptions to the base financial information;
- (f) identify whether any material adjustments are necessary to materially reflect the effects of the corporate fundraising event or transaction, and to ensure the pro forma forecast is not misleading, and:

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- (i) if such an adjustment is required, the assurance practitioner shall discuss the matter with the responsible party; or
- (ii) if the adjustment is not made, the assurance practitioner shall consider the implications for the engagement and the assurance report;
- (g) whether the pro forma forecast disclosures in the document are consistent with the assurance practitioner's understanding;
- (h) whether the stated basis of preparation for the pro forma forecast is not misleading for its intended purpose; and
- (i) where applicable, the pro forma forecast is prepared on a basis that is appropriate and consistent with that of the entity's historical or pro forma historical financial information.

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

82. In addition to the requirements in paragraph 39 of this ASAE, the assurance practitioner shall evaluate whether they have obtained sufficient appropriate evidence<sup>33</sup> on which to express an limited assurance conclusion, including whether: (Ref: Para. A80)

- (a) the responsible party's assumptions:
  - (i) have an objectively reasonable basis of preparation;
  - (ii) do not include any material hypothetical assumptions;
  - (iii) are appropriately disclosed in the document, including a clear indication as to whether they are best-estimate or hypothetical assumptions;
- (b) the pro forma forecast:
  - (i) is not materially misstated;

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<sup>33</sup> The concepts and discussions on the sufficiency and appropriates of evidence related to an audit engagement are contained in ASA 500 *Audit Evidence* and may be helpful in evaluating the evidence for corporate fundraising engagements.

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- (ii) is properly prepared on the basis of the responsible party's assumptions, and in accordance with the pro forma transactions and associated adjustments, as described in the document;
- (iii) is appropriately presented and disclosed in the document;
- (iv) if applicable, is prepared on a basis appropriate and consistent with the entity's pro forma historical or historical financial information; and
- (v) presented fairly in accordance with the recognition and measurement accounting policies disclosed in the document.

83. If the responsible party's assumptions on which the pro forma forecast are determined by the assurance practitioner not to be reasonable, the assurance practitioner shall consider the assumptions to be hypothetical, and shall determine the implications for the engagement and the assurance report, taking into account applicable law or regulation.<sup>34</sup>

**Written Representations**

84. In addition to the requirements in paragraph 49 of this ASAE, the assurance practitioner shall request the responsible party to include in the written representation letter the following:

- (a) an acknowledgement of the intended use of the pro forma forecast;
- (b) an acknowledgement of the responsible party's responsibilities for:
  - (i) the preparation and presentation of the pro forma forecast based on the underlying assumptions and the specified applicable criteria;
  - (ii) for determining the applicable time periods to be covered by the pro forma forecast;

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<sup>34</sup> See RG 170.

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- (iii) selecting and applying the pro forma transactions and associated adjustments used in the preparation of the pro forma forecast;
- (iv) the completeness of material assumptions used, and the consistency and accuracy of their application in the preparation of the pro forma forecast;
- (v) ensuring all pro forma assumptions have reasonable grounds for inclusion in the pro forma forecast, and are objectively reasonable; and
- (vi) an acknowledgement that the material assumptions remain appropriate, even though the underlying information may have been accumulated over a period of time.

**Forming the Assurance Conclusion**

85. In addition to the requirements in paragraph 53 of this ASAE, the assurance practitioner shall form a conclusion about whether anything has come to the assurance practitioner's attention that would cause them to believe that the pro forma forecast is not, in all material respects, prepared on the basis of the best-estimate assumptions, and pro forma transactions and associated adjustments, and presented fairly on a basis consistent with the stated basis disclosed in the document. In forming the conclusion the assurance practitioner shall consider:

- (a) the assurance practitioner's conclusion in paragraph 82 of this ASAE regarding the sufficiency and appropriateness of evidence obtained;
- (b) whether there are any uncorrected misstatements are material, either individually or in aggregate to the pro forma forecast;
- (c) whether the pro forma forecast has been prepared on the stated basis of the pro forma transactions and associated adjustments; and
- (d) whether the entity has been consistent and complied with, the recognition and measurement accounting policies disclosed in the document.

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86. If the assurance practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists, and the assurance practitioner shall determine whether it is appropriate to continue the engagement. If the assurance practitioner has determined it is appropriate to continue the engagement, the assurance practitioner shall express a qualified or disclaimer of conclusion, as appropriate.

**Preparing the Assurance Report**

*Basic Elements of the Assurance Report*

87. In addition to the requirement in paragraph 57 of this ASAE, the assurance report on pro forma forecast, shall include the following:
- (a) statements in the scope/background section that:
    - (i) identifies the purpose of the report; and the fact that it will be included in the document;
    - (ii) identifies the pro forma forecast being reported on, including the time period covered;
    - (iii) refers to the section of the document that outlines the applicable criteria used in the preparation of the pro forma forecast;
    - (iv) refers to the section of the document which includes the relevant disclosures that explain the basis of preparation of the pro forma forecast;
    - (v) where applicable, stated that the assurance report has been prepared for inclusion in the document, and, accordingly, is not suitable for any other purpose;
  - (b) a clearly identified section that details for the pro forma forecast:
    - (i) the source of the base financial information used as the basis for the pro forma forecast, including whether it is a forecast or a mixture of historical financial information and a forecast;
    - (ii) whether the base financial information has been previously audited or reviewed;

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- (iii) that the responsible party is responsible for the base financial information, including any best-estimate assumptions on which it is based;
  - (iv) explains the source of the financial information used as the basis for the pro forma forecast, including whether it is a forecast, or a mixture of historical financial information and a forecast;
  - (v) the specific purpose for which the pro forma forecast was prepared, and that it should not be used for other purposes;
- (c) a statement by the assurance practitioner that:
- (i) the engagement did not include:
    - ◆ if applicable, updating any previously audited or reviewed financial information that may have been used in the preparation of the pro forma forecast; or
    - ◆ an audit of the pro forma forecast;
  - (ii) the pro forma forecast does not represent the entity's actual results;
- (d) the assurance practitioner's limited conclusion:
- (i) if the conclusion is unmodified, a statement that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that:
    - ◆ the best-estimate assumptions do not provide a objectively reasonable basis for the preparation of the pro forma forecast; and
    - ◆ the pro forma forecast set out in the document is not:
      - ◇ properly prepared, in all material respects, on the basis of the best-estimate assumptions as set out in the document, and the pro forma transactions and

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associated adjustments as described in that document; and

- ◇ present fairly, in all material respects, the pro forma forecast in accordance with the recognition and measurement accounting policies adopted by the entity as disclosed in section [x] of the document; or
- (ii) if the conclusion is modified, includes a clear description of all the reasons for the modification properly described, with the effects appropriately quantified and disclosed in the assurance report.

**Aggregated Pro Forma Financial Information**

88. Paragraphs 89 to 94 inclusive of this ASAE deal with additional special considerations in the application of requirements in paragraphs 19 to 76 inclusive of this ASAE to pro forma financial information that has been aggregated. The pro forma financial information can be either historical or forecast in nature.

**Assurance Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. A81)

89. In addition to the requirements in paragraph 19 of this ASAE, the assurance practitioner shall prior to agreeing the terms of the assurance engagement obtain agreement from the responsible party that it acknowledges and understands its responsibility for:

- (a) the base pro forma financial information to be aggregated;
- (b) the selection, and application, of adjustments to the base pro forma financial information;
- (c) the applicable criteria, or stated basis of preparation, as applicable;
- (d) that the aggregation is performed either:
  - (i) for pro forma historical financial information on the basis of applicable criteria; or
  - (ii) for pro forma forecast on the basis stated; and



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- (e) the resultant aggregated financial information itself.

**Other Factors Affecting Engagement Acceptance** (Ref: Para. A82)

90. In addition the requirements in paragraph 20 of this ASAE, the assurance practitioner shall accept the engagement only when the assurance practitioner is satisfied that the base financial information used in the aggregation is appropriate for the responsible party's intended purpose.

**Agreeing on the Terms of the Assurance Engagement**

91. In addition to the requirements in paragraph 24 of this ASAE, the agreed terms of the assurance engagement shall include:
- (a) the assurance practitioner will provide limited assurance on the aggregated financial information;
  - (b) the assurance practitioner will not express any assurance on the base pro forma financial information; and
  - (c) the responsibilities of the assurance practitioner include performing assurance procedures on the aggregated pro forma financial information to enable them to determine whether the aggregation has been performed by the responsible party:
    - (i) for pro forma historical financial information based on the applicable criteria; or
    - (ii) for the pro forma forecast on the stated basis.

**Performing the Engagement** (Ref: Para. A83)

*Assurance Procedures*

92. In addition to the requirements in paragraph 33 of this ASAE, the assurance practitioner shall perform the following procedures:
- (a) whether the responsible party has appropriately extracted the base pro forma financial information from its source;
  - (b) where applicable, understand the basis for the audit or review opinion on the source of the base pro forma

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- financial information and its impact if any, on the aggregated financial information;
- (c) understand the nature of the adjustments made in the aggregation process, and ensure they are in accordance:
    - (i) for pro forma historical financial information on the applicable criteria; or
    - (ii) for pro forma forecast on the stated basis; and
  - (d) whether the aggregation calculations are arithmetically accurate.

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

93. In addition to the requirements in paragraph 39 of this ASAE, the assurance practitioner shall evaluate whether they have obtained sufficient appropriate evidence on which to express a limited assurance conclusion on the aggregated financial information, in the context of the engagement, including whether the aggregated financial information:
- (a) is prepared in accordance with the applicable criteria; and
  - (b) adequately refers to, or describes the applicable criteria.

**Preparing the Assurance Report**

94. In addition to the requirements in paragraph 57 of this ASAE, the assurance report on aggregated pro forma financial information, shall include the following:
- (a) statements in the scope/background section that:
    - (i) identifies the source of the pro forma financial information used as the basis of the aggregated pro forma financial information,
    - (ii) includes a statement as to whether the base pro forma financial information has been previously audited or reviewed; and

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- (iii) references to the relevant disclosures in the document, that explain the basis of preparation of the aggregated pro forma financial information;
- (b) a statement by the assurance practitioner that the engagement did not include an audit or review of the underlying pro forma financial information.
- (c) the assurance practitioner's limited assurance conclusion on the aggregated pro forma financial information:
  - (i) for unmodified conclusions, the assurance practitioner shall state that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the pro forma financial information is not aggregated, in all material respects, in accordance with the applicable criteria; or
  - (ii) for modified conclusions, the assurance report shall include a clear description of all the reasons for the modification properly described, with the effects appropriately quantified and disclosed in the assurance report.

**Prospective Financial Information**

95. Paragraph's 96 to 143 inclusive of this ASAE deal with special considerations in performing corporate fundraisings or prospective financial information related to prospective financial information in the form of a forecast, or a combination of a forecast and a projection. For a forecast that is adjusted for pro forma transactions and associated adjustments (pro forma forecast) refer to the requirements in paragraphs 76 to 87 inclusive of this ASAE.

**Assurance Engagement Acceptance**

*Preconditions for Acceptance*

96. The assurance practitioner shall prior to agreeing the terms of the assurance engagement, determine whether the applicable financial reporting framework for the preparation of the prospective financial information is acceptable and obtain agreement from the responsible party: (Ref: Para. A84-A85)

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- (a) that it understands and accepts the terms of the engagement, including the assurance practitioner's reporting responsibilities and type of assurance to be expressed being limited;
- (b) that it acknowledges and understands its responsibility for:
  - (i) the preparation and presentation of the prospective financial information:
    - ◆ based on assumptions that are objectively reasonable, and not on the basis of material hypothetical assumptions;
    - ◆ with a reasonable basis<sup>35</sup> of preparation;
    - ◆ that covers a defined time period;
    - ◆ that is not misleading;
    - ◆ where applicable, has reasonable grounds for inclusion in a public document;<sup>36</sup>
  - (ii) for the preparation of the document<sup>37</sup> in which the prospective financial information will be presented;
  - (iii) for such internal control as the responsible party determines is necessary to properly prepare the prospective financial information;
- (c) that it will provide the assurance practitioner with:
  - (i) access to all information relevant to the prospective financial information, including the source data used in developing the assumptions used;

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<sup>35</sup> What constitutes a "reasonable basis" for preparation depends on the specific circumstances of the engagement but may include where the information has a relevant factual foundation. Where the prospective financial information is intended to be included in a public document, refer RG 170 for more guidance.

<sup>36</sup> Where the prospective financial information is intended to be included in a public document, refer RG 170.

<sup>37</sup> The *Corporations Act 2001* places specific requirements on directors in relation to the preparation of documents that are public documents, including presentation of financial information included therein. For example, see section 92(3).

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- (ii) access to the whole document in which the prospective financial information is included;
- (iii) additional information requested by the assurance practitioner for the purpose of the engagement;
- (iv) unrestricted access to those within the entity from whom the assurance practitioner determines it necessary to obtain evidence, including where appropriate, the responsible party's third party experts; and
- (v) a written representation letter covering all matters requested by the assurance practitioner within the timeframe required.

**Other Factors Affecting Engagement Acceptance**

97. The assurance practitioner shall accept the engagement only when:  
(Ref: Para. A86-A88)
- (a) on the basis of preliminary knowledge of the assurance engagement circumstances nothing has come to the assurance practitioner's attention to indicate that the:
    - (i) requirements of the relevant ethical principles described in ASA 102, will not be satisfied;
    - (ii) prospective financial information has been prepared on the basis of clearly unrealistic assumptions, hypothetical assumptions only, or includes material hypothetical assumptions;
    - (iii) applicable criteria to be applied in the preparation of the prospective financial information is unacceptable;
  - (b) the basis upon which the engagement is to be performed has been agreed through establishing that the preconditions for an assurance engagement are present;
  - (c) the assurance practitioner is satisfied that those persons who are to perform the assurance engagement possess the necessary professional competencies;

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- (d) the assurance practitioner believes the prospective financial information will be appropriate for its intended use; and
  - (e) the assurance practitioner believes that the assurance report will be used for its intended purpose.
98. If the preconditions for the engagement, as set out in paragraph 96 of this ASAE are not present, the assurance practitioner shall discuss the matter with the responsible party. If changes cannot be made to meet the preconditions, the assurance practitioner shall not accept the engagement as an assurance engagement unless required by applicable law or regulation. Unless required by law or regulation to do so, the assurance practitioner shall not accept the proposed engagement.
99. The assurance practitioner shall agree to perform any non-assurance services in connection with the assurance engagement only in accordance with relevant ethical requirements and applicable professional standards,<sup>38</sup> having particular regard to independence. (Ref: Para. A89)

**Agreeing on the Terms of the Assurance Engagement**

100. The assurance practitioner shall agree the terms of the assurance engagement with the responsible party in writing. (Ref: Para. A90-A91)
101. The agreed terms of the assurance engagement shall include: (Ref: Para. A92-A93)
- (a) the objective and scope of the assurance engagement, including:
    - (i) the assurance practitioner's understanding of the purpose of the assurance engagement;
    - (ii) confirmation that the assurance practitioner will conduct the engagement in accordance with this ASAE;
    - (iii) the nature, source, time period covered, and purpose of the prospective financial information;

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<sup>38</sup> See APES 110 *Code of Ethics for Professional Accountants*, (November 2009) issued by the Accounting Professional and Ethical Standards Board.

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- (iv) a statement that the assurance practitioner is not responsible for the preparation of the prospective financial information, or the selection of the assumptions used in its preparation;
  - (v) a statement that the assurance practitioner will disclaim responsibility for any reliance on the assurance report, or on the prospective financial information to which it relates, to any party other than the responsible party, or for any purpose other than that for which the assurance report was prepared;
  - (vi) the proposed wording of the assurance opinion, including that the type of assurance that is expected to be provided is limited assurance in respect of:
    - ◆ whether the responsible party's best-estimate assumptions provide an objectively reasonable basis for the preparation of the prospective financial information; and
    - ◆ whether the preparation of the prospective financial information is in accordance with the applicable criteria;
  - (vii) the fact that the engagement cannot be relied upon to identify fraud(s), error(s), illegal action(s) or other irregularities that may exist within the entity;
- (b) a summary of assurance procedures to be performed;
  - (c) the responsibilities of the assurance practitioner, including:
    - (i) compliance with relevant ethical requirements, including independence;
    - (ii) performing assurance procedures on the prospective financial information to determine if it has been prepared in accordance with the applicable criteria;
    - (iii) examining the reasonableness of assumptions used by the responsible party;

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- (iv) issuing a written report for the intended purpose;
- (v) where applicable, providing consent to the responsible party for including the assurance practitioner's name and assurance report in the document;
- (d) the responsibilities of the responsible party including those set out in paragraph 96 of this ASAE; and
- (e) such other terms and conditions that the assurance practitioner determines are appropriate in the circumstances of the assurance engagement.

**Changes in the Terms of the Assurance Engagement** (Ref: Para. A95-A98)

- 102. The assurance practitioner shall not agree to a change in the terms of the assurance engagement where there is not a reasonable justification for doing so. If such a change is made, the assurance practitioner shall not disregard evidence that was obtained prior to the change.
- 103. If the terms of the engagement, the assurance practitioner and the responsible party shall agree on, and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.
- 104. If the assurance practitioner is unable to agree to a change of the terms of the engagement, and is not permitted by the responsible party to continue the original engagement, the assurance practitioner shall:
  - (a) withdraw from the engagement where possible under applicable law or regulation; and
  - (b) determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

**Planning the Assurance Engagement**

- 105. The assurance practitioner shall plan the assurance engagement in accordance with:



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- (a) ASRE 3000, for assurance procedures other than reviews or audits of historical financial information; and
- (b) this ASAE, for other assurance engagement work performed on the financial information.

*Planning Activities*

- 106. The assurance practitioner shall use professional judgement to determine the nature, timing, and extent of assurance procedures to perform on the prospective financial information, in order to achieve the engagement objectives. (Ref: Para. A99)
- 107. The assurance practitioner's planning considerations shall include: (Ref: Para. A100)
  - (a) what the agreed terms of engagement require the assurance practitioner to opine on;
  - (b) setting the scope, timing and direction of the assurance engagement;
  - (c) the type of underlying event(s) or transaction(s) that require the preparation of the prospective financial information and the extent of understanding required of the nature of the entity;
  - (d) any previous dealings with the entity including whether the assurance practitioner has:
    - (i) audited or reviewed prior period financial report(s) that may have been used as source data;
    - (ii) an understanding of the accuracy of previously prepared prospective financial information by the responsible party as compared to actual results;
  - (e) obtaining an understanding of the prospective financial information including the time period covered, underlying assumptions, intended use, the reliability of the source data, and the extent to which it is affected by the responsible party's judgements sufficient to design and perform assurance procedures;

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- (f) obtaining an understanding of the entity sufficient to be able to evaluate whether the responsible party has identified all material assumptions required for the preparation of the prospective financial information;
- (g) whether, based on preliminary knowledge obtained through the planning process, the applicable criteria used in the preparation of the prospective financial information is not misleading for its intended purpose; (Ref: Para. A101)
- (h) whether the assurance practitioner will need to contact the entity's auditor or other assurance practitioner in order to understand what type of audit or review opinion was expressed on the most recent financial report;
- (i) setting materiality levels for planning and performing the engagement and evaluating the likelihood of material misstatement;<sup>39</sup>
- (j) assurance engagement risk;
- (k) whether the use of an expert(s) is/are required;
- (l) the engagement team resources required for specific engagement areas and how they will be managed, directed and supervised; and
- (m) the expertise and experience of those persons preparing the prospective financial information; and
- (n) obtaining an understanding of internal control over the system used to prepare the prospective financial information.

*Reliance on the work of another Assurance Practitioner* (Ref: Para. A102)

108. If the assurance practitioner plans to place reliance<sup>40</sup> on historical financial information that may be used as source data, for comparative purposes with the prospective financial information, the assurance practitioner assesses if that historical financial information

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<sup>39</sup> The concepts and discussions on materiality in an audit engagement are contained in ASA 320 *Materiality in Planning and Performing an Audit* and may be helpful in determining the materiality levels for corporate fundraising engagements.

<sup>40</sup> The concepts and discussions on auditor's using the work of other experts are contained in ASA 620 *Using the Work of an Auditor's Expert* and may be helpful in determining the extent of reliance.

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has been audited or reviewed by another assurance practitioner. In such cases, the assurance practitioner shall:

- (a) consider the scope, professional competence, work performed and conclusion expressed by the other assurance practitioner;
- (b) determine whether there is a need to perform additional procedures on the historical financial information;
- (c) be satisfied that the work is adequate for the assurance practitioner's purposes; and

and consequently, consider how the historical financial information can provide a measure for assessing the reasonableness of the assumptions used into the preparation of prospective financial information.

109. Where the other assurance practitioner's opinion was modified, determine the implications for the assurance engagement:
- (a) consider the assurance practitioner's ability to undertake the engagement in accordance with the agreed terms; and
  - (b) consider the potential impact, if any, on the assurance procedures to be performed.

**Performing the Engagement**

*Assurance Procedures* (Ref: Para. A103-A107)

110. The assurance practitioner shall design and perform limited assurance type procedures in accordance with ASAE 3000 and this ASAE.
111. The assurance practitioner shall use professional judgement to design and perform procedures in order to obtain sufficient appropriate evidence on the basis of the best-estimate assumptions, and the preparation of prospective financial information on which to base a limited assurance conclusion, including:
- (a) consider the reasonableness and appropriateness of the time period covered by the prospective financial information;
  - (b) determine whether the best-estimate assumptions are:

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- (i) are supported by appropriate evidence;
  - (ii) are based on grounds that are objectively reasonable;
  - (iii) consistent with the stated basis of preparation of the prospective financial information and with the entity's recognition and measurement accounting policies;
  - (iv) attributable to the underlying event(s) or transaction(s);
  - (v) have a reasonable basis; and
  - (vi) are mathematically correct;
- (c) identify whether any material adjustments are necessary to materially reflect the effects of the corporate fundraising transaction, and to ensure the prospective financial information is not misleading, and:
- (i) if such an adjustment is required, the assurance practitioner shall discuss the matter with the responsible party; or
  - (ii) if the adjustment is not made, the assurance practitioner shall consider the implications for the engagement and the assurance report.
- (d) whether the stated basis of preparation for the prospective financial information is not misleading for its intended purpose; and
- (e) where applicable, the prospective financial information is prepared on a basis that is appropriate in the circumstances and consistent with that of the pro forma historical financial information or historical financial information included in the same document.
112. The assurance practitioner shall remain alert throughout the engagement for any event(s), condition(s), transaction(s), or error(s) that may:

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- (a) cast doubt over the reliability or accuracy of the information used as evidence for the prospective financial information, the underlying assumptions; and/or
- (b) require changes, or additions, to the assurance procedures in order to resolve.

*Using the Work of an Expert*

113. When using the work of an expert, the assurance practitioner shall:  
(Ref: Para. A108)

- (a) evaluate whether the expert has the necessary competence, capabilities, and objectivity for the assurance practitioner's purposes;
- (b) evaluate the expert's independence;
- (c) obtain a sufficient understanding of the field of expertise of the expert in order to evaluate the expert's work;
- (d) determine if the nature, scope and objectives of the expert's work is adequate for the purposes of the assurance engagement, and in accordance with applicable AUASB Standards;<sup>41</sup>
- (e) determine if the expert's work impacts on the assurance practitioner's conclusion; and
- (f) where applicable, determine if the expert has consented to the conclusion of the expert's report in the document.

*Adjustments identified by the Assurance Practitioner*

114. When during the conduct of the engagement a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe that it is necessary to make a material adjustment to the prospective financial information or the underlying assumptions, for them to be prepared in accordance with the applicable criteria, the assurance practitioner shall communicate this matter as soon as practicable to the responsible party. (Ref: Para. A109)

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<sup>41</sup> See ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraphs 47-55, and ASA 620 *Using the Work of an Auditor's Expert*.

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115. Where the responsible party refuses to make the adjustment, the assurance practitioner shall determine the implications for the engagement and the assurance report. (Ref: Para. A110)

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

116. The assurance practitioner shall evaluate whether they have obtained sufficient appropriate evidence<sup>42</sup> on which to express an limited assurance conclusion on the prospective financial information in the document, including whether: (Ref: Para. A111)
- (a) the responsible party's assumptions:
    - (i) have an objectively reasonable basis of preparation;
    - (ii) do not include material hypothetical assumptions;
    - (iii) are appropriately disclosed in the document, including a clear indication as to whether they are best-estimate or hypothetical assumptions;
  - (b) the prospective financial information:
    - (i) is not materially misstated,
    - (ii) is properly prepared on the basis of the responsible party's assumptions;
    - (iii) is appropriately presented and disclosed in the document; and
    - (iv) if applicable, is prepared on a basis consistent with the entity's historical financial information, including its recognition and measurement accounting policies.<sup>43</sup>
117. If the responsible party's assumptions on which the prospective financial information are based are determined by the assurance

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<sup>42</sup> The concepts and discussions on the sufficiency and appropriates of evidence related to an audit engagement are contained in ASA 500 *Audit Evidence* and may be helpful in evaluating the evidence for corporate fundraising engagements.

<sup>43</sup> The concepts and discussions on the recognition and measurement accounting principles are contained in AASB's *Framework for the Preparation and Presentation of Financial Statements* (December 2009, as amended) and may be helpful in determining the applicable recognition and measurement principles.

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practitioner not to be reasonable, the assurance practitioner shall consider the assumptions to be hypothetical and shall determine the implications for the engagement and the assurance report, taking into account any applicable law or regulation.<sup>44</sup> (Ref: Para. A111)

**Other Information included in the document** (Ref: Para. A113-A116)

118. When the document containing the prospective financial information and assurance report include other information, the assurance practitioner shall request from the responsible party a copy of that document and read its entire contents to identify any material inconsistencies or material misstatements of fact with the prospective financial information.

119. If the assurance practitioner:

- (a) identifies a material inconsistency between the other information and the prospective financial information; or
- (b) becomes aware of a material misstatement of fact in that other information that is related to the prospective financial information; or
- (c) identifies a misleading or deceptive statement;

the assurance practitioner discusses the matter(s) identified with the responsible party and takes further action as appropriate, including determining the implications for the engagement and the assurance report.

**Going Concern Considerations** (Ref: Para. A117-A119)

120. The assurance practitioner shall determine if an assessment of the entity's going concern considerations is relevant to the assurance engagement.<sup>45</sup>

121. If the assurance practitioner determines that an assessment of the entity's going concern is relevant, the assurance practitioner shall perform such an assessment in order to obtain sufficient appropriate evidence regarding the appropriateness of the responsible party's use

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<sup>44</sup> See RG 170.

<sup>45</sup> The concepts and discussions on the going concern assessment relevant to an audit engagement are contained in *ASA 570 Going Concern*, and may be helpful in performing a going concern assessment in an assurance engagement. Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, paragraphs 25-26 contains relevant guidance on the going concern assessment.

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of the going concern assumption in the preparation of the prospective financial information.

122. If the assurance practitioner concludes the entity is not a going concern, the assurance practitioner shall consider the implications for the engagement and the assurance report.

**Consideration of Events up to the date of the Assurance Report**

(Ref: Para. A120)

123. The assurance practitioner shall consider the impact of any event, transaction, assumption, or error of which they become aware, that may materially impact the prospective financial information, for the time period up to and including the date of the assurance report.

124. The assurance practitioner shall discuss with the responsible party any such event, transaction, assumption, or error identified in paragraph 123 of this ASAE, with a view to concluding as to whether their effect on the prospective financial information is material, and needs to be adjusted and/or disclosed in:

- (a) the prospective financial information;
- (b) the document; and/or
- (c) the assurance report.

**Consideration of Events Identified after the date of Assurance Report**

(Ref: Para. A121-A122)

125. If the assurance practitioner becomes aware of events, transactions or errors after the date of the issuance of the assurance report and before the relevant date that may have cause the assurance practitioner to amend the assurance report had the assurance practitioner known of them at the date of that assurance report, the assurance practitioner shall:

- (a) discuss such events and/or transactions with the responsible party; and
- (b) consider what further action is appropriate in the engagement circumstances.

126. The assurance practitioner shall revoke any consent previously agreed to or provided, to include the assurance report in the



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document, if the matter(s) referred to in paragraph's 124 and/or 125 are not, in the assurance practitioner's professional judgement, appropriately addressed by the responsible party.

**Written Representations** (Ref: Para. A123-A126)

127. Where the assurance practitioner has not already received written representations from the responsible party in respect of the following matters, the assurance practitioner shall request a written representation letter from the responsible party containing the following:
- (a) an acceptance of the engagement letter terms and conditions;
  - (b) an acknowledgement that the assurance practitioner's engagement has been conducted in accordance with this ASAE;
  - (c) an acknowledgement that the engagement terms included the type of engagement the assurance practitioner would conduct and that a limited of assurance conclusion that would be expressed;
  - (d) an acknowledgement of the intended use of the prospective financial information;
  - (e) an acknowledgement of the completeness of the material assumptions used, and the accuracy of their application in the preparation of the prospective financial information;
  - (f) an acknowledgement that the material assumptions remain appropriate, even though the underlying information may have been accumulated over a period of time;
  - (g) an acknowledgement of the responsible party's responsibilities for:
    - (i) the preparation and presentation of the prospective financial information based on the underlying assumptions and the specified applicable criteria;
    - (ii) for determining the applicable time periods to be covered by the prospective financial information;

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- (iii) for the completeness and accuracy of the material assumptions used in the preparation of the financial information;
- (iv) the preparation and issuance of the document in which the prospective financial information is included;
- (v) all other information that is not the subject of the engagement, but which is included in the document;
- (vi) for disclosing in the document all information required by applicable law or regulation;
- (vii) providing the assurance practitioner with all requested information, including any matter, event, adjustment, assumption, or transaction that may be relevant to the prospective financial information, as well as access to all records, related data, documentation and other information requested or necessary for the completion of the engagement;
- (viii) the application of the entity's recognition and measurement accounting policies have been consistently applied to the prospective financial information;
- (ix) for establishing and maintaining an adequate internal control structure in order to facilitate the preparation of reliable prospective financial information;
- (x) advising the assurance practitioner of any matter, event or issue that has arisen or been discovered subsequent to the preparation of the prospective financial information that may impact, or require adjustment to, that prospective financial information;
- (xi) providing the assurance practitioner with a listing of all immaterial adjustments, or known uncorrected misstatements, that have not been made in the prospective financial information; together with an acknowledgement that they are

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responsible for concluding that such adjustments are immaterial; and

- (h) such other written representations that the assurance practitioner determines is appropriate in the engagement circumstances.
128. The date of the representation letter shall be as near as practicable to, but not after, the date of the assurance report.
129. The assurance practitioner shall evaluate the representations received from the responsible party for their reasonableness and consistency with other information and evidence obtained.
130. If one or more of the requested written representations are not provided, or the assurance practitioner has sufficient doubt about the competence, integrity or reliability of those providing the written representations, the assurance practitioner shall:
- (a) discuss the matter with the responsible party;
  - (b) evaluate the implications on the reliability of evidence obtained; and
  - (c) take appropriate actions, including determining the effect on the assurance conclusion and the assurance report.

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**Forming the Assurance Conclusion** (Ref: Para. A128)

131. The assurance practitioner shall form a conclusion about whether anything has come to the assurance practitioner's attention that would cause them to believe the prospective financial information is not, in all material respects, prepared on the basis of the best-estimate assumptions and presented fairly on a basis consistent with the accounting policies, as disclosed in the document. In forming that conclusion the assurance practitioner shall consider:
- (a) the assurance practitioner's conclusion in paragraph 116 of this ASAE regarding the sufficiency and appropriateness of evidence obtained;
  - (b) an evaluation of whether any uncorrected misstatements are material, individually or in aggregate to the prospective financial information; and
  - (c) whether the entity has been consistent with, and complied with, the accounting policies adopted and disclosed in the document.
132. If the assurance practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists, and the assurance practitioner shall determine whether it is appropriate to continue the engagement. If the assurance practitioner has determined it is appropriate to continue the engagement, the assurance practitioner shall express a qualified or disclaimer of conclusion, as appropriate on the prospective financial information.

**Preparing the Assurance Report**

133. The assurance practitioner shall provide a written assurance report to the responsible party containing a clear expression of the assurance practitioner's conclusion on the prospective financial information included in the document. (Ref: Para. A129)
134. If applicable, the assurance practitioner's conclusion on each type of financial information shall be clearly separated within the assurance report. (Ref: Para. A130)

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*Basic Elements of the Assurance Report*

135. The assurance report shall include the following basic elements:  
(Ref: Para. A131-A133)
- (a) a title that clearly indicates the report is an independent assurance report;
  - (b) an addressee;
  - (c) a scope/background section that:
    - (i) identifies the purpose of the report; and the fact that it will be included in a specific document;
    - (ii) identifies the prospective financial information being reported on, including the time period covered;
    - (iii) refers to the section of the document that outlines the applicable criteria for the preparation of the prospective financial information;
    - (iv) where applicable, states that the assurance report has been prepared for inclusion in a specific document and, accordingly, is not suitable for any other purpose;
    - (v) a statement that identifies the entity that is subject to the corporate fundraising, and the responsible party;
    - (vi) a statement that the assurance engagement was performed in accordance with this ASAE;
    - (vii) a statement that the firm of which the assurance practitioner is a member applies ASQC 1; and
    - (viii) a statement that the assurance practitioner has complied with relevant ethical requirements;
  - (d) a clearly identified section that details for the prospective financial information:

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- (i) the source of the financial information and that the responsible party is responsible for its preparation, including the best-estimate assumptions on which it is based;
- (ii) the specific purpose for which the prospective financial information was prepared, and that the it should not be used for other purposes;
- (iii) the type of engagement conducted by the assurance practitioner, and that the planned level of assurance was limited; and
- (iv) an informative summary of assurance procedures performed as to the basis for the assurance practitioner's conclusion on the to obtain evidence supporting the assumptions, amounts and other disclosures in the prospective financial information;
- (e) the assurance practitioner's limited assurance conclusion:
  - (i) if the conclusion is unmodified, that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that:
    - ◆ the best-estimate assumptions do not provide an objectively reasonable basis for the preparation of the prospective financial information; and
    - ◆ in all material respects, the prospective financial information is not prepared on the basis of the best-estimate assumptions; and does not present fairly, on a basis consistent with the accounting policies adopted by the entity and the applicable criteria, as disclosed in section [x] of the document; or
  - (ii) if the conclusion is modified, provide a clear description of all the reasons for the modification properly described, with the effects appropriately quantified and disclosed in the assurance report;
- (f) a section covering events up to and including the date of the assurance report:

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- (i) including a statement confirming whether any material transactions or events outside the entity's ordinary business have come to the assurance practitioner's attention that would require comment, or adjustment to, the prospective financial information or cause it to be misleading or deceptive; and
  - (ii) if applicable, their potential impact;
  - (g) a statement that:
    - (i) the actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material; or
    - (ii) in the case of prospective financial information prepared on the basis of a projection, that such information has been prepared for a specific purpose, using assumptions that include hypothetical assumptions about future events and the responsible party's actions that are not necessarily expected to occur, and the assurance report should not be used for any other purpose than stated.
  - (h) a statement disclaiming the assurance practitioner's responsibility for the achievability of the results indicated by the prospective financial information;
  - (i) an independence, or disclosure of interest, statement;
  - (j) the assurance practitioner's signature;
  - (k) the date of the assurance practitioner's report; and
  - (l) the assurance practitioner's address.
136. If the assurance practitioner is required by law or regulation to use a specific layout or wording in the assurance report, the assurance report shall refer to compliance with this ASAE, or other ASAEs, only if the assurance report includes, a at minimum, each of the elements identified in paragraph 135 of this ASAE.

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*Unmodified and Modified Conclusions*

Unmodified conclusions (Ref: Para. A134)

137. The assurance practitioner shall express an unmodified conclusion that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that:
- (a) the best-estimate assumptions do not provide an objectively reasonable basis for the preparation of the prospective financial information; and
  - (b) in all material respects, the prospective financial information is not prepared on the basis of the best-estimate assumptions; and does not present fairly, on a basis consistent with the accounting policies adopted by the entity and the applicable criteria, as disclosed in section [x] of the document.

Modified conclusions (Ref: Para. A135-A139)

138. The assurance practitioner shall express a modified conclusion when the following circumstances exist and, in the assurance practitioner's professional judgement, the effect of the matter is or may be material:
- (a) when the assurance practitioner's conclusion is that:
    - (i) one or more material assumptions do not provide a reasonable basis for the prospective financial information prepared on the basis of best-estimate assumptions, or
    - (ii) one or more material assumptions do not provide a reasonable basis for the prospective financial information given the inclusion of hypothetical assumptions;the assurance practitioner shall express an adverse opinion;
  - (b) when the assurance practitioner's conclusion is that the prospective financial information is not free from material misstatement, and/or is misleading. In such cases, the assurance practitioner shall express a qualified or adverse conclusion;



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- (c) when the assurance practitioner's conclusion is the effects, or possible effects, of a matter are not so material or pervasive as to require an adverse conclusion or a disclaimer of conclusion. In such cases, the assurance practitioner shall express a qualified conclusion;
  - (d) when there has been a material scope limitation and the possible effect is so pervasive and material that the assurance practitioner concludes that no level of assurance can be provided. In such cases, the practitioner shall express a qualified conclusion or a disclaimer of conclusion; or
  - (e) when the assurance practitioner is unable to obtain sufficient appropriate evidence on which to base the conclusion, and the assurance practitioner concludes that the possible effects of the undetected matters, if any, that cause the prospective financial information not to be properly prepared, could be material and pervasive. In such cases, the assurance practitioner shall express a disclaimer of conclusion.
139. If the assurance practitioner expresses a modified conclusion because of a scope limitation, but is also aware of a matter(s) that causes the financial information to be materially misstated, the assurance practitioner shall include in the assurance report a clear description of both the scope limitation and the matter(s) that causes that the prospective financial information to be materially misstated.

Use of Going Concern Assumption Appropriate but a Materially Uncertainty Exists (Ref: Para. A140-A142)

140. If the assurance practitioner concludes there is a material uncertainty related to events or conditions that individually or collectively may cast significant doubt on the entity's ability to continue as a going concern, the assurance practitioner shall:
- (a) express a qualified or adverse conclusion, as appropriate, in the assurance report when the responsible party does not make appropriate changes in the document; or

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- (b) include an Emphasis of Matter Paragraph in the assurance conclusion when the responsible party makes appropriate changes in the document.<sup>46</sup>

**Consent to the Inclusion of the Assurance Report in a Public Document**

(Ref: Para. A143-A144)

- 141. The assurance practitioner shall consider applicable law or regulation when providing consent in writing to the inclusion of the assurance report in another document.
- 142. Where the assurance practitioner considers it inappropriate for the assurance report to be included in the document, consent shall either not be provided, or be revoked prior to the relevant date of the document's release.

**Documentation** (Ref: Para. A145-A146)

- 143. The assurance practitioner shall prepare documentation, on a timely basis, of all matters that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement to understand:
  - (a) the nature, timing and extent of the procedures performed to comply with this ASAE;
  - (b) the results of the procedures performed, and the evidence obtained; and
  - (c) significant matters arising during the engagement, the conclusion reached thereon, and significant professional judgements made in reaching those conclusions.

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<sup>46</sup> The concepts and discussions on the circumstances under which an emphasis of matter paragraph be in an auditor's report are contained in ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* and may be helpful in assisting the assurance practitioner decide if it is appropriate for the assurance engagement relating to corporate fundraisings.

## **Proper Compilation of Pro Forma Financial Information**

### **Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. A147)

144. In addition to the requirements in paragraph 19 of this ASAE, the assurance practitioner shall prior to agreeing the terms of the assurance engagement to report on the proper compilation of pro forma financial information included in a document, determine whether the engagement is acceptable and obtain agreement from the responsible party:
- (a) that it acknowledges and understands its responsibility for:
    - (i) the preparation of the base financial information;
    - (ii) the selection of the time period covered of the pro forma financial information;
    - (iii) for the selection, development and application of the applicable criteria used in the proper compilation process, and the adequate disclosures of such criteria in the document;
    - (iv) compiling the pro forma financial information on the basis stated; and
  - (b) that it will provide the assurance practitioner with:
    - (i) access to all information (including, where required, information of acquirees in a business combination), such as records, documentation and other material, relevant to the proper compilation of the pro forma financial information;
    - (ii) such additional information that the assurance practitioner may request from the responsible party for the purpose of the engagement;
    - (iii) access to those within the entity and the entity's advisors from whom the assurance practitioner determines it necessary to obtain evidence relating to the proper compilation of the pro forma financial information; and

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- (iv) where applicable, access to appropriate individuals within acquirees in a business combination.

**Other Factors Affecting Engagement Acceptance**

145. In addition to the requirements in paragraph 20 of this ASAE, the assurance practitioner shall accept the engagement only when:
- (a) on the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party, determine that it is unlikely that the compilation of the pro forma financial information will be misleading for the purpose for which it is intended; and
  - (b) where applicable law or regulation required the base financial information to have been previously audited or reviewed, that such an audit or review has occurred, and an auditor's report or review conclusion issued.

**Agreeing on the Terms of the Assurance Engagement**

146. In addition to the requirements in paragraph 24 of this ASAE, the agreed terms of the assurance engagement shall include the following assurance practitioner responsibilities: (Ref: Para. A148)
- (a) the assurance practitioner will provide limited assurance on the proper compilation of the pro forma financial information;
  - (b) the assurance practitioner will determine whether the applicable criteria selected by the responsible party is suitable; and
  - (c) the assurance practitioner is responsible for performing assurance procedures on the proper compilation of the pro forma financial information to determine if it has been prepared in accordance with the basis stated.

**Planning the Assurance Engagement**

*Planning Activities*

147. The assurance practitioner shall obtain an understanding of:  
(Ref: Para. A149)

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- (a) the nature of the entity and any acquiree or divestee;
- (b) the event(s) or transaction(s) in respect of which the pro forma financial information is being compiled;
- (c) the nature of the source financial information, the compilation process, the pro form adjustments made, and the presentation of the pro forma financial information; and
- (d) the applicable financial reporting framework adopted by the entity and of any acquiree or divestee, including their selection and application of accounting policies.

148. The procedures planned to perform during the engagement depend on the assurance practitioner's professional judgement, having regard to the assurance practitioner's understanding of the nature of the entity, the event(s) or transaction(s) in respect of which the pro forma financial information has been compiled, materiality considerations, and other relevant engagement circumstances.  
(Ref: Para. A150)

**Performing the Engagement**

*Assurance Procedures*

149. The assurance practitioner shall design and perform the following procedures on the proper compilation of the pro forma financial information:
- (a) determine whether the source of the base financial information has been audited or reviewed:
    - (i) if it has been previously audited or reviewed, and if so, the type of opinion expressed;  
(Ref: Para. A151-A153) or
    - (ii) if there has been no audit or review, the assurance practitioner shall perform procedures to be satisfied that the source is appropriate;  
(Ref: Para. A154)
  - (b) determine whether the source of the base financial information has been extracted from an appropriate source;  
(Ref: Para. A151-A155)

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- (c) determine whether the pro forma adjustments are:  
(Ref: Para. A156-A157)
- (i) directly attributable to the underlying event(s) or transaction(s);
  - (ii) factually supportable;
  - (iii) give appropriate effect to the stated basis;
  - (iv) consistent with the entity's recognition and measurement accounting policies and applicable financial reporting framework;
  - (v) captures all adjustments necessary to illustrate the material impact of the event(s) or transaction(s) at the date, or for the stated time period;
  - (vi) arithmetically correct;
- and in accordance with the basis stated;
- (d) the pro forma column reflects the proper application of the pro forma adjustments to the base financial information, resulting in pro forma financial information that is properly compiled;
- (e) assess whether the applicable criteria used in the basis stated is: (Ref: Para. A158)
- (i) consistently applied; and
  - (ii) unlikely to result in pro forma financial information that is misleading.
- (f) evaluate the overall presentation of the pro forma financial information. This shall include consideration of:  
(Ref: Para. A159)
- (i) the overall presentation and structure of the pro forma financial information, including whether it is clearly distinguished from other financial information;

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- (ii) whether the pro forma financial information and related explanatory notes illustrate the impact of the event(s) or transaction(s) in a manner that is not misleading; and
- (iii) whether appropriate disclosures are provided with the pro forma financial information to enable the intended users to understand the information conveyed.

*Adjustments identified by the Assurance Practitioner*

150. If, on the basis of the procedures performed, the assurance practitioner identifies that the responsible party has: (Ref: ParaA161)
- (a) used a source of the base financial information that is not appropriate; or
  - (b) omitted a pro forma adjustment that should be included, or inappropriately applied a pro forma adjustment,

the assurance practitioner shall discuss the matter with the responsible party. If the assurance practitioner is unable to agree with the responsible party as to how the matter should be resolved, the assurance practitioner shall determine the implications for engagement and the assurance report.

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

151. The assurance practitioner shall evaluate whether they have obtained sufficient appropriate evidence on which to express an assurance conclusion on the proper compilation of the pro forma financial information, including whether it: (Ref: Para. A160)
- (a) is free from material omissions or inappropriate application of any element thereof; and
  - (b) contains adequate disclosure of the applicable criteria used in the basis stated.

**Written Representations**

152. In addition to the requirements in paragraph 49 of this ASAE, the assurance practitioner shall request the responsible party to include

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in the written representation letter an acknowledgement of their responsibility for: (Ref: Para. A162)

- (a) the compilation of the pro forma financial information;
- (b) the identification of all appropriate pro forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the time period of the illustration;
- (c) the omission of any pro forma adjustments from the compilation of the pro forma financial information because they are not in accordance with the basis stated and such omission does not render the pro forma financial information misleading; and
- (d) the proper compilation of the pro forma financial information to reflect all the significant effects of the event(s) or transaction(s), and in a way that does not result in the pro forma financial information being misleading.

**Forming the Assurance Conclusion**

153. The assurance practitioner shall form the conclusion about whether the pro forma financial information has been properly compiled by the responsible party on the basis stated. In forming the conclusion, the assurance practitioner shall consider:

- (a) the assurance practitioner's conclusion in paragraph 39 of this ASAE regarding the sufficiency and appropriateness of evidence obtained; and
- (b) whether the pro forma financial information has been properly compiled on the stated basis.

**Preparing the Assurance Report**

*Basic Elements of the Assurance Report*

154. The assurance report shall include the following basic elements:

- (a) a title that clearly indicates that the report is an independent assurance report;
- (b) an addressee(s), as agreed in the terms of engagement;



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- (c) a scope/background section that identifies
  - (i) the pro forma financial information;
  - (ii) the source of the base financial information, whether it has been audited or reviewed and the type of opinion expressed;
  - (iii) a statement that the responsible party is responsible for compiling the pro forma financial information on the basis stated;
  - (iv) the time period covered by, or the date of, the pro forma financial information; and
  - (v) a reference to the applicable criteria in accordance with which the compilation of the pro forma financial information has been performed, and the source of the criteria;
- (d) a statement that the assurance engagement was performed in accordance with this ASAE;
- (e) a statement that the firm of which the assurance practitioner is a member applies ASQC 1;
- (f) a statement that the assurance practitioner has complied with relevant ethical requirements;
- (g) a clearly identified section that details:
  - (i) whether the base financial information has been previously audited or reviewed by another assurance practitioner, and the type of opinion expressed;
  - (ii) the source of the base financial information;
  - (iii) a statement that the responsible party is responsible for the preparation of the pro forma financial information;
  - (iv) the type of engagement conducted by the assurance practitioner, the level of assurance and the type of conclusion planned;

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- (v) an informative summary of assurance procedures performed as the basis for the assurance practitioner's conclusion;
- (h) a description of the assurance practitioner's responsibilities, including statements that:
  - (i) the assurance practitioner's responsibility is to express an opinion about whether the pro forma financial information has been properly compiled by the responsible party on the basis stated;
  - (ii) for purposes of this engagement:
    - ◆ the assurance practitioner is not responsible for updating or reissuing any reports or opinions on any base financial information used in the compilation of the pro forma financial information; and
    - ◆ the assurance practitioner has not performed an audit or review of the pro forma financial information itself, nor, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information;
- (i) the assurance practitioner's conclusion:
  - (i) in the case of a limited assurance engagement:
    - ◆ with a unmodified conclusion, that, based on the procedures performed, nothing has come to the attention of the assurance practitioner that causes the assurance practitioner to believe that the pro forma financial information is not properly compiled, in all material respects, by the responsible party on the basis stated; or
    - ◆ with a modified conclusion a clear description of all the reasons for the modification properly described, with the effects appropriately quantified and disclosed in the assurance report; or
  - (ii) in the case of a reasonable assurance engagement:

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- ◆ with an unmodified conclusion, that the pro forma financial information is properly compiled, in all material respects, in accordance with basis stated; or
  - ◆ with a modified conclusion, a clear description of all the reasons for the modification properly described, with the effects appropriately quantified and disclosed in the assurance report;
- (j) a section covering events up to and including the date of the assurance report:
- (i) including a statement confirming whether any material transactions or events outside the entity's ordinary business have come to the assurance practitioner's attention that would require comment, or adjustment to, the pro forma financial information, or cause it to be misleading or deceptive; and
  - (ii) if applicable, their potential impact;
- (k) an independence, or disclosure of interest, statement;
- (l) the assurance practitioner's signature;
- (m) the date of the report; and
- (n) the assurance practitioner's address.

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## **Application and Other Explanatory Material**

### **Type of Assurance** (Ref: Para. 6)

- A1. Assurance engagements involving corporate fundraisings, or the examination of prospective financial information, are ordinarily conducted by the assurance practitioner with a view to expressing a limited assurance conclusion. A limited assurance engagement consists of making enquiries, primarily of the responsible party and applying analytical and other review procedures. It may bring significant matters relating to the financial information reasonable assurance engagement.
- A2. However, there is nothing in this ASAE to preclude the assurance practitioner from using professional judgement in conducting an assurance engagement with a view to expressing a reasonable assurance conclusion. This type of conclusion requires a higher degree of work to be performed in order to provide a higher level of assurance in respect of the financial information. Consequently, engagements involving historical financial information may opine a reasonable assurance conclusion, however non-historical sourced financial information (for example, pro forma forecast or prospective financial information); by nature, would ordinarily not be included in an assurance engagement where the assurance practitioner is requested to express a reasonable assurance conclusion.

### **Non-Assurance Services** (Ref: Para.7)

- A3. The assurance practitioner may agree to, and provide non-assurance services in connection with the agreed terms of engagement. Non-assurance services do not result in an assurance conclusion being expressed by the assurance practitioner;<sup>47</sup> and consequently are not within the scope of this ASAE. The assurance practitioner may decide that such non-assurance services may be included in a separate engagement letter from the assurance services, or combined into a single engagement letter.
- A4. Examples of non-assurance services that may be performed by the assurance practitioner include:

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<sup>47</sup> Refer *Framework for Assurance Engagements* (April 2010) for further guidance on the elements of an assurance engagement (Para. 20) and consulting engagements (paragraphs 12-Aus 16.1).

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- (a) the preparation and issuance of a Materiality Letter to an entity's due diligence committee (DDC) related to the corporate fundraising;
- (b) participation in the DDC in the capacity of the assurance practitioner; and
- (c) agreed upon procedures engagements, where no assurance conclusion is expressed (for example, a report of factual findings in respect of subsets of financial information included in the public document or other document; or earnings per share calculations).<sup>48</sup>

**Historical Financial Information**

**Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. 19)

- A5. The responsible party is ultimately responsible for the preparation and presentation of all information (including any assumptions and applied criteria used as the basis for the financial information) in the document. The responsible party may engage other experts (for example, tax advisors, business advisors, or legal counsel) who may prepare, assist with the preparation, or provide independent advice on, the information included in the document; however it is the responsible party who retains responsibility for such information. The only exception to this being that the responsible party is not responsible for the content of reports prepared by other parties/experts which are included, by consent, in the document.
- A6. If the responsible party is not also the engaging party, the assurance practitioner ordinarily considers the effect this may have on their ability to access to records, documentation and other information that may be needed by the assurance practitioner to complete the engagement.

**Other Factors Affecting Engagement Acceptance**

- A7. The assurance practitioner should not accept an assurance engagement: (Ref: Para. 20)

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<sup>48</sup> See AUS 904 *Agreed Upon Procedures* issued by the AuASB.

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- (a) unless the assurance practitioner is satisfied that there is the engagement has a rational purpose. Examples where this may be the case include:
    - (i) if there is a significant limitation on the scope of the assurance practitioner's work; or
    - (ii) if engagement circumstances lead the assurance practitioner to believe that the responsible party intends to associate the assurance practitioner's name with the financial information in an inappropriate manner; and
  - (b) if the assurance practitioner, or assurance practitioner's firm does not have the necessary qualifications to perform the particular engagement type, for example, those performed under the *Corporations Act 2001*,<sup>49</sup> and other law or regulation that may be applicable.<sup>50</sup>
- A8. In circumstances where the assurance practitioner is a member of a firm which is also providing to the entity other non-assurance services in respect of the document, the assurance practitioner should consider relevant ethical requirements (including independence), and the requirements of applicable law, regulation or professional standards when considering whether to accept the assurance engagement. Examples of non-assurance services commonly provided include the preparation of taxation information and other consulting services. The provision of such non-assurance services by the assurance practitioner is not within the scope of this ASAE.<sup>51</sup> (Ref: Para. 22)

**Agreeing on the Terms of the Assurance Engagement**

- A9. Acknowledgement by the responsible party in writing via acceptance of the engagement letter provides evidence that the appropriate relationship exists, that it accepts its responsibilities, and establishes a basis for a common understanding of the responsibility of each party. It also avoids misunderstandings of the agreed terms. (Ref: Para. 23)

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<sup>49</sup> For example, an Australian Financial Service License.

<sup>50</sup> For example, those prescribed by ASIC policy statements and practice notes.

<sup>51</sup> Refer APES 350 *Participation by members in public practice in due diligence committees in connection with a public document* (January 2011), issued by the Accounting Professional and Ethical Standards Board

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- A10. In the absence of a written acknowledgement of responsibility by the responsible party, via acceptance of the engagement letter, the assurance practitioner should consider whether it is appropriate to accept the assurance engagement. Accepting the assurance engagement may be appropriate when, for example, other sources, such as applicable law, regulation, or a contract, acknowledge, or indicate, such responsibility. For example, under the *Corporations Act 2001*,<sup>52</sup> the directors of an entity are deemed responsible for the financial information included in a public document used in offering securities.
- A11. The terms of the assurance engagement letter ordinarily includes:  
(Ref: Para. 24)
- (a) an introductory section that covers the assurance practitioner's understanding of the terms of the engagement including:
    - (i) the time period covered, the source of the historical financial information, and the type of document the historical financial information will appear in and for who and what purpose it has been prepared;
    - (ii) the nature of the underlying transaction(s) or event(s) giving rise to the assurance engagement;
    - (iii) a statement that the assurance practitioner is independent of the responsible party, and of the financial information;
  - (b) outline of the scope of the engagement:
    - (i) that assurance procedures will be performed on the historical financial information in order for the assurance practitioner to be able to issue a particular assurance conclusion; and
    - (ii) confirmation that the engagement will be conducted in accordance with this ASAE and if applicable, particular law or regulation (for example the *Corporations Act 2001*) and ethical

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<sup>52</sup> See Section 717 of the *Corporations Act 2001* for an overview of the procedures for offering securities.

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and other pronouncements of professional bodies to which the assurance practitioner adheres;

- (c) details, by type of financial information, of procedures that will be performed. The assurance practitioner exercises professional judgement in what specific assurance procedures are summarised in the engagement letter, taking into account the nature of the historical financial information, and the engagement circumstances. Examples of procedures that could be included are:
  - (i) analytical review procedures;
  - (ii) comparisons of consistency in the application of recognition and measurement principles contained in the applicable financial reporting framework as compared to the accounting policies adopted by the entity in the preparation of the historical financial information, and disclosed in the document;
  - (iii) review and consideration of key work papers, accounting records and other documents prepared by the responsible party and other experts; and
  - (iv) enquiry of, and discussion with, the responsible party, those charged with governance, management, experts, and other parties related to the financial information;
  - (v) examination, on a test basis, of evidence supporting the financial information, including its basis of preparation;
- (d) a statement that the assurance practitioner is not performing an audit, and accordingly no audit opinion will be expressed on the historical financial information;
- (e) whether the assurance practitioner will have sufficient access to all required financial information in order to form the assurance conclusion;
- (f) details of the type of wording to be included in the assurance opinion and the assurance conclusion;



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- (g) confirmation that the assurance practitioner will issue an assurance report relating to the historical financial information for inclusion in the document;
- (h) confirmation that the assurance practitioner will rely on the fact that the responsible party is responsible for:
  - (i) the preparation and presentation of the historical financial information,
  - (ii) for the document within which the financial information is included; and
  - (iii) issuing the document;
- (i) the expectation that the responsible party will provide written representations;
- (j) agreement from the responsible party:
  - (i) to make available to the assurance practitioner historical financial information and any accompanying other information in time to allow the assurance practitioner to complete the engagement in accordance with the proposed timetable; and
  - (ii) to inform the assurance practitioner of factors that may affect the assurance report, of which the responsible party may become aware during the time period from the date of the assurance report to the date it is issued;
- (k) documented important deadlines/timelines for the completion of the assurance engagement. This may include deadlines such as the expected date of publication of the document and when the assurance practitioner's consent is required;
- (l) arrangements regarding the planning and performance of the engagement; including the composition of the engagement team (including any experts);
- (m) arrangements for the assurance practitioner to:

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- (i) attend meetings such as the due diligence committee meetings (if appropriate under the terms of the assurance engagement);<sup>53</sup>
- (ii) receive draft and final versions of the document in a timely manner when requested;
- (iii) use the service(s) of the responsible party's experts and/or the assurance practitioner's experts;
- (iv) communicate directly with the entity's external auditor and/or other professional advisers regarding matters relevant to the financial information;
- (n) the form and context of any published consent that the assurance practitioner has agreed to include in the document. For example, in respect of public documents prepared in accordance with the *Corporations Act 2001*<sup>54</sup> and lodged with the Australian Securities and Investments Commission (ASIC) entities intending to distribute the document in both electronic and paper form, must also obtain the assurance practitioner's consent in both forms as well;<sup>55</sup> and
- (o) a request for the responsible party to acknowledge receipt of the engagement letter and to agree to the terms of the engagement contained in the letter.

A12. The responsible party who signs the engagement letter should be the ultimate responsible party of the entity, or an authorised representative/officer thereof, recognising that in certain circumstances, the directors of the entity (being those charged with governance) may not be appointed by the stage of agreeing the terms of the engagement or the entity may not be in existence when the engagement commences (for example, a new company structure). In such cases, the assurance practitioner considers whether to update and re-issue the engagement letter terms for a change of responsible party.

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<sup>53</sup> See APES 350 *Participation by Members in Public Practice in Due Diligence Committees in Connection with a Public Document* (December 2009), issued by the Accounting Professional and Ethical Standards Board.

<sup>54</sup> See Section 716 of the *Corporations Act 2001*.

<sup>55</sup> See ASIC Regulatory Guide 107 *Electronic Prospectuses*.

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A13. Appendix 2 provides an illustrative example engagement letter for an assurance engagement relate to a corporate fundraising.

**Changes in the Terms of the Assurance Engagement** (Ref: Para. 26)

A14. Any change in agreed terms proposed by the responsible party throughout the assurance engagement should be appropriately justified to the assurance practitioner's satisfaction before the assurance practitioner agrees to the changes. Examples of when requests from the responsible party may be received include a change to reflect a change in circumstances affected the need for the service, a misunderstanding of the nature of the assurance services to be provided. The assurance practitioner considers the implications of the proposed change on the conduct and reporting of the engagement, as well as any evidence that was obtained prior to the change.

A15. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change in the engagement.

A16. Certain proposed changes to the agreed terms by the responsible party that may be unacceptable to the assurance practitioner, and ordinarily would not be justified or agreed to include:

- (a) a change that affects the intended users' needs, or a misunderstanding concerning the nature of the assurance engagement;
- (b) a change that relates to historical financial information that is incorrect, incomplete or otherwise unsatisfactory;
- (c) limiting time available to perform the engagement; preventing access to all relevant documents or persons requested; or
- (d) not providing documents when requested, leading to time constraints that make the satisfactory completion of the assurance engagement by the date required unachievable.

A17. It is important that all changes agreed to by the responsible party and the assurance practitioner be documented and approved in writing to ensure no misunderstanding of what has been agreed.

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**Planning the Assurance Engagement**

A18. Planning the assurance engagement ordinarily involves obtaining an understanding of the nature of the historical financial information, its preparation, and other assurance engagement circumstances to identify and understand events and transactions that may have a significant impact on the historical financial information, or on the assurance report. The assurance practitioner is required to use professional judgement to determine the extent of the understanding that is needed of the nature of the historical financial information and other assurance engagement circumstances.<sup>56</sup> The assurance practitioner ordinarily considers whether that understanding is sufficient to assess the risks that the historical financial information may be materially misstated. (Ref: Para. 28)

*Planning Activities*

A19. The agreed terms of the individual engagement determine the nature, timing and extent of procedures to be performed by the assurance practitioner. The following planning activities assist the assurance practitioner in this process: (Ref: Para. 29)

- (a) The extent of the assurance practitioner's understanding of the entity (which may have been gained from experience in conducting the prior audit(s) or review(s) of its financial report(s)):
  - (i) whether the entity is in a start-up phase, or has been in operation for a number of years. If the entity is in start-up phase, the assurance practitioner ordinarily expands their planning activities so as to be able to obtain sufficient knowledge and understanding in order to meet the requirements of the engagement and this ASAE;
  - (ii) the size and complexity of the entity including its ownership, management structure, and financial resources;

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<sup>56</sup> The concepts and discussions on complete set of financial statements relevant to an audit engagement are contained in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph Aus 13.1, and may be helpful in determining the components of a complete set of financial statements applicable to an assurance engagement.

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- (iii) the nature and extent of its operations, industry type, and geographical locations in which it trades;
  - (iv) the economic and economic environment within which it operates including whether its business is cyclical or seasonal;
  - (v) applicable law and regulation primarily affecting its operations;
  - (vi) industry-specific accounting practices;
  - (vii) key accounting practices/policies used which have a material impact on the entity's financial reporting results (for example asset valuations, taxation) and its applicable financial reporting framework;
  - (viii) its key strategies for establishing and maintaining profitable operations;
  - (ix) the types of audit or review report conclusions previously issued by the entities' auditors;
  - (x) the type of adjustments made to the historical financial information. For example, to restate the provision accounts or depreciation charges; and
- (b) whether the assurance practitioner has previously performed an audit or review of the entity's previous period financial reports:
- (i) if this is the case, the assurance practitioner would ordinarily have acquired an understanding of the entity and its operations. This understanding would include knowledge of the entity's management skills and resources, information technology systems (including financial systems). This understanding would need to be updated to ensure it has not changed in the current time period; or
  - (ii) if this is not the case, the assurance practitioner ordinarily expands their planning activities so as to be able to obtain sufficient knowledge and

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understanding in order to meet the requirements of this ASAE.

- (c) obtaining an understanding of the historical financial information, appropriate to the engagement:
  - (i) understanding the source of the historical financial information (audited/reviewed financial information or otherwise), and whether any of the source information has been subject to a prior audit or review:
    - ◆ In certain engagement circumstances however, the assurance practitioner does not need to obtain a detailed understanding of the historical financial information. For example, where the engagement relates a takeover or merger transaction, where the assurance practitioner has no access to the one of the parties financial information, or other entity to be merged, as appropriate, other than that available in the public domain;
    - ◆ understanding the applicable criteria used and time period covered;
    - ◆ understanding the requirements of applicable law or regulation;
  - (ii) understanding the significant accounting policies, used by the entity in the preparation of the historical financial information, particularly recognition and measurement policies; including the process for their selection and application;
- (d) obtaining an understanding of whether comparative information is to be included in the document, and whether it will be restated;
- (e) reading minutes of meetings and other documentation (such as key contractors or agreements) supporting key decisions or issues that impact the engagement;
- (f) obtaining an understanding of the other information included in the document to assess whether it is consistent with the historical financial information;

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- (g) developing expectations for use when performing analytical procedures;
- (h) the nature and extent of experts or other specialised skills involvement required for the engagement.<sup>57</sup> An expert may be internal (a partner or staff in the assurance practitioner's firm or network firm) or external to the firm. There may be circumstances when the assurance practitioner may require the services of an expert, particularly when obtaining sufficient appropriate evidence to support the assurance practitioner's conclusion. For example, when determining the suitability of applicable criteria used by the responsible party in preparing the historical financial information;
- (i) the nature, timing, and extent of communications that will be required with the responsible party, and third party experts, and other advisors;
- (j) Materiality considerations and assessment. However, ordinarily materiality is considered in terms of both quantitative and qualitative factors, such as relative magnitude, the nature, and extent of the effect of these factors on the assurance practitioner's evaluation of the financial information, and the intended users interests.<sup>58</sup>
  - (i) In determining materiality, the assurance practitioner needs to use professional judgement to understand and assess these factors, and how they might influence the decisions of intended users of the historical financial information in evaluating the prospects of the entity.
  - (ii) Materiality considerations reduce the risk of expressing an inappropriate conclusion.
  - (iii) Refer Appendix 3 for examples of the quantitative and qualitative factors of materiality.

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<sup>57</sup> The concepts and discussions on using the work of experts relevant to an audit engagement are contained in ASA 620 *Using the Work of an Auditor's Expert*, and may be useful to assurance practitioners when determining their responsibilities when using the work of experts in assurance engagements.

<sup>58</sup> The concepts and discussions on establishing materiality relevant to an audit engagement are contained in ASA 320 *Materiality in Planning and Performing an Audit*, which may be useful to assurance practitioners when determining materiality in the conduct of an assurance engagement.

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- (k) Assurance engagement risk. This risk comprises inherent risk, control risk and detection risk<sup>59</sup> and the assurance practitioner considers these risk components in terms of the engagement circumstances; in particular the nature of the historical financial information and whether a reasonable or limited assurance conclusion is sought. These considerations are then reflected in the extent of the planned procedures to be performed and the evidence-gathering process.
- (l) Fraud risk considerations (where applicable).
- A20. As detailed in ASAE 3000,<sup>60</sup> the suitability of the applied criteria used by the responsible party ordinarily has particular characteristics that the assurance practitioner is able to use in their evaluation of whether the applicable criteria has been applied by the responsible party. These characteristics include relevance, completeness, reliability, neutrality, and understand ability. When dealing with historical financial information prepared for use in a corporate fundraising, the responsible party ordinarily develops specific criteria to meet their requirements. (Ref: Para. 30(f))

*Reliance on the work of another Assurance Practitioner* (Ref: Para. 31)

- A21. Ordinarily, another assurance practitioner will not permit reliance to be placed on their assurance report (regardless of whether it is an audit report or review report), as the report was prepared and issued for another purpose other than that subject to the current assurance engagement. In these cases, the assurance practitioner needs to consider what additional assurance procedures may be required to plan and perform in order to obtain sufficient and appropriate evidence on the base financial information.<sup>61</sup> The assurance practitioner should therefore consider the extent (if any) to which reliance can be placed on the work of the other assurance practitioner, taking into account:

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<sup>59</sup> The concepts and discussions on assurance engagement risk relevant to an audit engagement are contained in ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, which may be useful to assurance practitioners when determining assurance engagement risk in the conduct of an assurance engagement.

<sup>60</sup> See ASAE 3000, paragraphs 35-39 (inclusive).

<sup>61</sup> The concepts and discussions on placing reliance on the work of another auditor relevant to an audit engagement are contained in ASA 620 *Using the work of an Auditor's Expert and ASA 600 Special Considerations - Audit of a Group Financial Report (Including the Work of Component Auditors)* which may be useful to assurance practitioners when determining the extent, if any, of such reliance in the conduct of an assurance engagement.



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- (a) Whether the assurance practitioner can obtain access to the audit working papers.
- (b) Whether the other assurance practitioner permits reliance to be placed on the work.
- (c) The purpose for which the other work was performed.
- (d) Audit materiality levels set.
- (e) Audit approach taken.
- (f) Audit differences (if any) identified.
- (g) Type of opinion expressed in the auditor's report, and if applicable, reasons for a modified opinion.

**Performing the Engagement**

*Assurance Procedures*

A22. When designing and performing assurance procedures, the assurance practitioner considers the adequacy, relevance and reliability of the information obtained to be used as evidence.<sup>62</sup> The nature, timing and extent of procedures and evidence required depends on the agreed terms of the assurance engagement, the type of assurance to be obtained, and the assurance practitioner's professional judgement. The procedures involved ordinarily include: (Ref: Para. 33)

- (a) assessing the suitability of the recognition and measurement accounting policies used as applicable criteria for the preparation of the historical financial information;
- (b) assessing the appropriateness and suitability of any adjustments made compared to the applicable criteria;
- (c) if comparative information is included:
  - (i) compare how it is prepared to the entity's historical financial information;

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<sup>62</sup> The concepts and discussions on obtaining evidence relevant to an audit engagement are contained in ASA 500 *Audit Evidence* which may be useful to assurance practitioners when determining the extent of the evidence required to be obtained in the conduct of an assurance engagement.

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- (ii) ensure any restatements made are appropriate;
- (d) reviewing other relevant financial information available in the public domain for consistency with the historical financial information;
- (e) assessing applicable internal control over the information systems used to capture and record the historical financial information, and the expertise of the persons responsible for these systems;
- (f) evaluating materiality in terms of both qualitative and quantitative factors;
- (g) making enquires of the responsible party, other experts and relevant parties;
- (h) reviewing the entity's work papers accounting records and other documents;
- (i) developing expectations for use when performing analytical procedures;
- (j) designing and performing further assurance procedures to reduce assurance engagement risk to an appropriate level;
- (k) evaluating evidence, including the reasonableness of the responsible party's oral and written representations; and
- (l) the adequacy of historical financial information disclosures included in the document.

A23. When the assurance practitioner obtains oral representations from the responsible party in respect of matters supporting the financial information, the assurance practitioner ordinarily: (Ref: Para. 33)

- (a) Evaluates their reasonableness and consistency with other evidence obtained, including other representations.
- (b) Considers whether those making the representations can be expected to be well informed on the particular matters.

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- (c) Obtains appropriate corroborative evidence.<sup>63</sup>
  - (d) Documents the key aspects of the oral representation.
- A24. If the engagement terms include the assurance practitioner performing a review of the historical financial information, the nature, timing, and extent of review procedures to be carried out may be influenced by various factors, including: (Ref: Para. 34)
- (a) if the entity's financial report has already been audited or reviewed, and if so;
    - (i) whether the audit or review was conducted in accordance with Australian Auditing Standards; and
    - (ii) whether a modified opinion was expressed in the auditor's report;
  - (b) whether the historical financial information included in the document is consistent with that of the prior period audited or reviewed historical financial information. For example, such comparatives may have been restated and/or adjusted by the responsible party to ensure consistency of basis of preparation. There may also be cases where the omission of comparatives may be appropriate when a major event or transaction (e.g. restructuring) has occurred since the comparative time period);
  - (c) whether the source (an audited or reviewed financial report) and time period covered by the historical financial information is appropriate under the applicable criteria. The evaluation of the appropriateness of the source and the time period used should include an assessment of whether there are any inconsistencies with the applicable criteria;
  - (d) whether the preparation of the historical financial information is consistent with the recognition and measurement requirements of Australian Accounting Standards (or other applicable financial reporting framework);

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<sup>63</sup> The concepts and discussions on corroborative evidence relevant in investigating unusual fluctuations relevant to an audit engagement are contained in Auditing ASA 520 *Analytical Procedures*, and may be helpful in determining appropriate corroborative evidence in an assurance engagement.

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- (e) whether there is a need to make adjustments previously considered immaterial in the prior period audit or review of the financial report;
- (f) responses by the responsible party, the entity's management, the entity's external auditor (if another assurance practitioner audited the financial report) and other experts, to enquiries made by the assurance practitioner.<sup>64</sup> Such enquires may relate to whether there were:
  - (i) any changes in accounting policies, financial reporting practices and other reporting requirements that occurred during the time period under examination;
  - (ii) any adjustments required to convert the basis of the financial report presentation from an overseas jurisdiction's generally accepted accounting principles to Australian Accounting Standards (or other applicable Australian reporting framework);
  - (iii) any unadjusted audit differences from the most recently audited or reviewed financial report that may be material for the purposes of the document;
  - (iv) the treatment of any provisions and other significant accounting estimates (such as asset revaluations) in the financial report; and
  - (v) any significant transactions with related parties, such as assets that have been purchased from an associated entity.

*Using the Work of an Expert* (Ref: Para. 36)

A25. The assurance practitioner needs to consider, when using the work of an assurance practitioner's expert the following:

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<sup>64</sup> The concepts and discussions on using the work of another auditor or internal auditor relevant to an audit engagement are contained in Auditing Standard ASA 600 *Special Considerations-Audits of a Group Financial Report (including the Work of Component Auditors)* and Auditing Standard ASA 610 *Using the Work of Internal Auditors* which may be helpful in considering the work of other auditors applicable to an assurance engagement.

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- (a) the nature of the matter, and the risks of material misstatement to which the expert's work relates;
- (b) the significance of that expert's work in the context of the engagement;
- (c) the assurance practitioner's knowledge of and experience with previous work performed by that expert;
- (d) the extent of review of the expert's work by the assurance practitioner; and
- (e) the results/findings of the experts work.

*Adjustments identified by the Assurance Practitioner*

A26. The assurance practitioner should communicate matters relating to the historical financial information, that in their professional judgement require the responsible party to make a material adjustment to the historical financial information. Such communications may be made orally or in writing, and should be done as soon as the matter is identified to enable the responsible party to investigate the matter(s). The responsible party is then able to advise the assurance practitioner of their findings and provide supporting evidence, as well as their decision on whether they will make the adjustment to the historical financial information. The assurance practitioner is then able to evaluate the evidence provided to consider if the responsible parties decision on the adjustment is acceptable to the assurance practitioner. (Ref: Para. 37)

A27. In circumstances where the responsible party does not make adjustment and the assurance practitioner disagrees with the decision, the assurance practitioner considers the implications for the assurance report. (Ref: Para. 38)

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

(Ref: Para. 39-39)

A28. The assurance practitioner uses professional judgement in determining the sufficiency and appropriateness of the evidence obtained based on the procedures performed. Evidence obtained by the assurance practitioner that is in quantity is a measure of the sufficiency of the evidence, whilst the quality of that evidence

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obtained is a measure of its appropriateness; that is, its relevance and its reliability.<sup>65</sup>

- A29. If the assurance practitioner identifies that the historical financial information may be materially misstated, or its disclosure in the document is potentially misleading, the assurance practitioner carries out additional procedures, or performs more extensive procedures to enable them to form a conclusion, including whether a modified conclusion is required.
- A30. For the purposes of expressing a limited assurance conclusion, the assurance practitioner obtains sufficient appropriate evidence primarily through enquiry and analytical procedures on the historical financial information to be able to draw conclusion.

**Other Information included in the document** (Ref: Para. 40-41)

*Material Inconsistencies*

- A31. Material inconsistencies in other information that come to the assurance practitioner's attention may raise doubt about the conclusions drawn from evidence previously obtained and possibly, about the basis for the assurance practitioner's conclusion in the assurance report. Assurance practitioners need to pay particular attention to:
- (a) the form and content of the other information (for example if it is in graphical or table form);
  - (b) summarised financial information and its cross referencing and consistency with the assurance report;
  - (c) other financial information such as asset values in other experts' reports;
  - (d) other information such as related party disclosures;
  - (e) management discussion and analysis of the financial information;
  - (f) the adequacy of disclosures around the assumptions used in the financial information;

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<sup>65</sup> The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500 *Audit Evidence*, and may be helpful in determining the evidence applicable to an assurance engagement.

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- (g) the purpose and terms of the issue, such as the nature and amount of the securities, their value and rights as well as any minimum subscription; and
  - (h) forward-looking qualitative statements on the entity's prospects.
- A32. If the assurance practitioner identifies material inconsistencies between the historical financial information and the other information, the assurance practitioner discusses the inconsistency with the responsible party, and determine whether the historical financial information and/or the other information needs to be revised.
- A33. If the assurance practitioner and the responsible party agrees to the revision, the assurance practitioner requests an updated copy of the document in order to ensure the revisions have been made.
- A34. If the assurance practitioner considers that revisions to the other information are necessary due to a material inconsistency, and the responsible party refuses to make the revisions, the assurance practitioner considers:
- (a) obtaining legal advice;
  - (b) including in the assurance report an Other Matter paragraph<sup>66</sup> that describes the material inconsistency; or
  - (c) where applicable, withdrawing consent to include the assurance report in the document; or
  - (d) withdrawing from the assurance engagement, where the withdrawal is possible under applicable law or regulation.

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<sup>66</sup> The concepts and discussion on the use of an Other Matter paragraph relevant to an audit engagement are contained in ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8-Aus 8.1, determining its form, content and location in the Investigating Accountant's Report applicable to an assurance engagement.

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*Material Misstatement of Fact*

- A35. When discussing an apparent material misstatement of fact with the responsible party, the assurance practitioner may not be able to sufficiently evaluate the validity of certain information and the responsible party's responses to the assurance practitioner's enquiries, and may conclude that valid differences of opinion or judgements exist.
- A36. The assurance practitioner needs to consider the nature of the identified material misstatement in terms of its possible impact on the historical financial information, and other information included in the document, including whether it gives risk to a material omission, or misleading or deceptive statement in the document. Further action that the assurance practitioner may take in making their assessment includes:
- (a) obtaining legal advice on the appropriate course of the action for the assurance practitioner;
  - (b) including in the assurance report an Other Matter paragraph<sup>67</sup> that describes the material misstatement of fact;
  - (c) withdrawing consent for the responsible party to include the assurance report in the document; or
  - (d) withdrawing from the assurance engagement, where such withdrawal is possible under applicable law or regulation.

**Going Concern Considerations** (Ref: Para. 42-44)

- A37. The assurance practitioner considers the appropriateness of the going concern assumption of the entity when the nature of the assurance engagement and the financial information subject to assurance means that such an assessment could have implications for the assurance report.
- A38. When considering whether the entity is a going concern<sup>68</sup>, the assurance practitioner ordinarily takes into account the entity's

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<sup>67</sup> The concepts and discussion on the use of an Other Matter paragraph relevant to an audit engagement are contained in ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8-Aus 8.1, determining its form, content and location in the Investigating Accountant's Report applicable to an assurance engagement.



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prepared forecasts, cash flow statements, and financial position and any other events or conditions that are relevant to the assessment. For example, if the prospects for profitability are not supported by adequate cash flows, then both the forecast financial performance statement and the ongoing viability of the entity are at risk. There may also be mitigating factors that in the assurance practitioner's professional judgement, eliminate the going concern uncertainty. These factors include:

- (a) unequivocal financial support provided from another entity which has the capacity to provide support, or
- (b) the underlying transaction or event giving rise to the document (for example, a capital raising) will raise sufficient funds to result in the entity becoming a going concern.

Such mitigating factors should be supported by appropriate written evidence. In such circumstances, the assurance practitioner needs to evaluate and document how the unequivocal financial support or proceeds from the fundraising issue will provide funding for future operations of the entity that will result in the entity becoming a going concern. The assurance practitioner should also consider requesting a written representation from the responsible party regarding the appropriateness of the going concern assumption.

A39. If the assurance practitioner does not consider the going concern assumption to be appropriate to the entity, the implications for the assurance report depend on whether the responsible party has modified the basis of preparation of the financial information from that of a going concern:

- (a) if the assurance practitioner does not consider the basis to be appropriate, then the opinion in the assurance report should be modified (adverse opinion) on the basis of the going concern assumption being inappropriate to the financial information; or
- (b) if the assurance practitioner considers the basis to be appropriate, then the assurance report may include an emphasis of matter paragraph in the assurance conclusion

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<sup>68</sup> The concepts and discussions on performing an going concern assessment of an entity, relevant to an audit engagement are contained in Auditing ASA 570 *Going Concern*, and may be helpful in performing an going concern assessment in an assurance engagement.

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to draw attention to the disclosure of this fact in the financial information.

**Consideration of Events up to the Date of the Assurance Report**

(Ref: Para. 45-46)

- A40. The extent of consideration by the assurance practitioner of events or transactions occurring after the date of performing assurance procedures and before the date of the assurance report (commonly referred to as subsequent events) depends on:
- (a) the agreed terms of engagement for reporting of subsequent events;
  - (o) the potential for such events:
    - (i) to materially affect the historical financial information in terms of requiring comment on, or adjustment to, the historical financial information; and
    - (ii) whether the events or transactions causes the historical financial information to be misleading or deceptive;
  - (b) whether such events or transactions are within the ordinarily business of the entity; and
  - (c) the requirements of applicable law, regulation, or professional standards.<sup>69</sup>

**Consideration of Events Identified after the date of the Assurance Report**

(Ref: Para. 47- 48)

- A41. If there are material deficiencies, misleading statements, or significant matters omitted from the document, which come to the assurance practitioner's attention after:
- (a) in the case of a public document:
    - (i) after it has been lodged with the appropriate regulatory body, and

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<sup>69</sup> The concepts and discussions on subsequent events relevant to an audit engagement are contained in Auditing Standard ASA 560 *Subsequent Events*, and may be helpful in determining the principles applicable to an assurance engagement.

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- (ii) before the relevant date,

the assurance practitioner considers the implications for the assurance report, as well as any reporting obligations the assurance practitioner may have to inform the entity making the offer; or

- (b) in the case of document other than a public document:

- (i) after it has been finalised and issued to its intended user(s), and

- (ii) before the relevant date,

the assurance practitioner considers the implications for the assurance report, as well as any reporting obligations the assurance practitioner may have to inform the entity making the offer.

A42. If there are material deficiencies, misleading statements, or significant matters omitted from the document: (Ref: Para. 48)

- (a) related to the historical financial information on which the assurance practitioner has opined in the assurance report;
- (b) which have been omitted by the entity from the document;
- (c) which come to the assurance practitioner's attention after the relevant date; and
- (d) the entity has not amended the document, or issued a supplementary document to correct such material deficiencies, misleading statements, or the omission of significant matters;

the assurance practitioner needs to withdraw consent for the entity to include the assurance report in the document, and consider if there are other applicable law or regulation that impose particular reporting obligations on the assurance practitioner.

**Written Representations**

A43. The assurance practitioner needs to request, and obtain, a written representation letter from the responsible party at the completion of

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the assurance engagement.<sup>70</sup> The assurance practitioner ordinarily provides the responsible party with a specific list of matters requiring the responsible party's representations. Such matters may be already be contained in documentation reviewed by the assurance practitioner, including minutes of meetings, written acceptance of the engagement terms, and DDC reports, and therefore the assurance practitioner only needs to request the inclusion of such matters in the written representation letter if the assurance practitioner considers it appropriate in the engagement circumstances. Examples of matters may include an acknowledgement by the responsible party of:

- (a) the agreed terms of the assurance engagement;
- (b) their responsibility for:
  - (i) the preparation of the historical financial information for the time periods stated, in accordance with the applicable criteria that was selected and determined by them;
  - (ii) all other information included in the document, other than reports prepared by experts who have provided their consent for their inclusion;
  - (iii) the overall document;
  - (iv) the establishment and maintenance of proper internal control related to financial reporting;
  - (v) the maintenance of proper financial records and systems which facilitate the preparation of the financial information;
- (c) providing all information requested by the assurance practitioner;
- (d) any uncorrected misstatements are immaterial, either individually or in aggregate to the historical financial information; and that all such misstatements have been previously advised to the assurance practitioner;

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<sup>70</sup> The concepts and discussions on obtaining written representations relevant to an audit engagement are contained in Auditing Standard ASA 580 *Written Representations*, and may be helpful in determining the form and content of written representations applicable to an assurance engagement.

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- (e) providing all material financial information, financial records and related data, and all other information relevant to financial information related to the engagement (for example fraud, errors, regulatory issues or communications);
  - (f) confirming the going concern basis of preparation of the historical financial information is appropriate in the document; and
  - (g) that there are no material changes to the historical financial information between the date of the assurance report and the relevant date.
- A44. Oral or written representations made by the responsible party cannot replace other evidence the assurance practitioner could reasonably expect to be available. For example, relevant minutes of meetings of the Board of Directors, or a published statement by the Board of Directors acknowledging responsibility for the preparation and presentation of historical financial information, may be considered appropriate sufficient evidence under the circumstances. To the extent the other evidence obtained is inconsistent with the responsible party's oral or written representations, the assurance practitioner should investigate and evaluate such inconsistencies, with a view to obtaining sufficient appropriate evidence. In such cases, additional procedures may be required in order to achieve this.
- A45. If the responsible party does not provide such a letter, or refuses to provide it, the assurance practitioner needs to consider the implications of this on the assurance report. Having no written representation letter from the responsible party may result in a qualified conclusion or a disclaimer of conclusion in the assurance report on the basis of a limitation on the scope of the assurance engagement. The assurance practitioner may also include a restriction paragraph on the distribution of, or use of, the assurance report. (Ref: Para. 52)
- A46. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation of the historical financial information in the document, when such evidence would ordinarily be available, constitutes a limitation on the scope of the assurance engagement, even if a written representation from the responsible party has been received by the assurance practitioner on the matter. (Ref: Para. 52)

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A47. Appendix 4 provides an illustrative written representation letter.  
(Ref: Para. 52)

**Forming the Assurance Conclusion** (Ref: Para. 53)

- A48. The assurance practitioner's evaluation of the sufficiency and appropriateness of the evidence obtained during the assurance engagement takes account of:
- (a) the source of the financial information and what assumptions, if any, have been made that affects its preparation;
  - (b) the planned assurance level on the historical financial information;
  - (c) whether sufficient appropriate evidence has been obtained to support the assurance practitioner's conclusion;
  - (d) the assurance practitioner's assessment of whether any uncorrected misstatements or adjustments are material, individually or in aggregate, to the historical financial information;
  - (e) whether the entity has complied with the recognition and measurements principles of the applicable financial reporting framework (which in Australia is ordinarily those contained in applicable Australian Accounting Standards); and
  - (f) whether the historical financial information includes adequate disclosure of the applicable criteria selected and applied in its preparation.

**Preparing the Assurance Report**

A49. The assurance report may be prepared solely in respect of a particular type of financial information (for example, pro forma historical financial information) or be a composite report where two or more of types of financial information are the subject of the assurance report (for example historical and prospective financial information). (Ref: Para. 55)

A50. If the assurance practitioner is preparing a composite assurance report the assurance practitioner needs to ensure:

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- (a) that the different types of financial information are clearly identified in the document, and separately referred to in the assurance report; and
- (b) the assurance report clearly identifies and segregates the work carried out, and type of assurance expressed, on the different types of financial information. (Ref: Para. 55)

*Basic Elements of the Assurance Report* (Ref: Para. 57)

A51. The scope/background section of the assurance report may contain the following:

- (a) Identification of the historical financial information that is to be the subject of the assurance report.
- (b) A discussion of any material adjustments that have been made to the historical financial information in the document.
- (c) Sources of the historical financial information where the assurance practitioner was the auditor of the prior year financial report.
- (d) A reference to the prior year auditor if the assurance practitioner was not the auditor of the prior year financial report.
- (e) If applicable, how a modification to the auditor's conclusion in the prior year audited or reviewed financial report is addressed in the document.
- (f) In a limited assurance engagement, the summary of assurance procedures ordinarily states that the assurance practitioner's procedures were more limited than for a reasonable assurance engagement and consequently they do not enable the assurance practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement.

A52. The assurance report cannot be dated earlier than the date on which the assurance practitioner obtained evidence on which the assurance practitioner's conclusion is based, including receipt of a written representation letter from the responsible party.

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- A53. In respect of an assurance report that is being included in a public document prepared in accordance with the *Corporations Act 2001*, the assurance practitioner also needs to ensure that the assurance report is:
- (a) included in the public document;
  - (b) appropriately cross referenced and consistent with other information disclosed in the public document; and
  - (c) appropriately positioned in the public document in relation to the financial information on which the assurance practitioner provides a conclusion.<sup>71</sup>

*Unmodified and Modified Conclusions*

Unmodified conclusions (Ref: Para. 59)

- A54. When the assurance practitioner concludes, on the basis of having obtained sufficient appropriate evidence, that the historical financial information has been properly prepared by the responsible party based on the applicable criteria, the conclusion expressed in the assurance report is unmodified.
- A55. Appendix 5 contains illustrative examples of unmodified conclusions in an assurance report.

Modified conclusions (Ref: Para. 60)

- A56. When the assurance practitioner expresses a modified conclusion in the assurance report, the reasons for the modification should be properly described, with the effects appropriately quantified and disclosed in the assurance report.
- A57. Appendix 5 contains illustrative examples of modified conclusions<sup>72</sup> in an assurance report.
- A58. A qualified conclusion is expressed when: (Ref: Para. 60(a)-60(a))

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<sup>71</sup> See ASIC's RG 170.

<sup>72</sup> The concepts and discussions on modifications to the opinion relevant to an audit engagement are contained in Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*, and may be helpful in determining the nature, type and opinion wording of modifications applicable to an assurance engagement.



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- (a) the assurance practitioner concludes that misstatement, individual or in aggregate are material but not pervasive to the historical financial information;
- (b) matters have come to the assurance practitioner's attention that cause the assurance practitioner to believe that the historical financial information is not prepared, in all material respects, in accordance with the applicable criteria;
- (c) the assurance practitioner is unable to obtain sufficient appropriate evidence on which to base a conclusion, but concludes that the possible effects on the historical financial information of undetected misstatements, if any could be material but not pervasive to the historical financial information; or
- (d) the assurance practitioner determines there has been a material scope limitation regarding the possible adjustments to the historical financial information that might have been determined to be necessary had the limitation not existed.

A qualified conclusion is expressed as being “except for” the effects, or possible effects, of the matter to which the qualification relates.

A59. An adverse conclusion is expressed when the assurance practitioner concludes (having obtained sufficient appropriate evidence) that misstatements, individually or in aggregate, are both material and pervasive to the historical financial information. In these circumstances, the assurance practitioner ordinarily concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the historical financial information. The form of the adverse opinion is ordinarily that the financial information is not prepared fairly in all material respects, in accordance with the applicable criteria. (Ref: Para 60(a))

A60. An disclaimer of conclusion is expressed when the assurance practitioner is unable to obtain sufficient appropriate evidence on which to base a conclusion, and concludes that the possible effects on the historical financial information of undetected misstatements, if any, could be both material and pervasive to the financial information. . (Ref: Para 60(c))

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Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists (Ref: Para. 62)

- A61. When the assurance practitioner determines that a material uncertainty exists that casts significant doubt on the entity's ability to continue as a going concern, the assurance practitioner considers the adequacy of disclosures made in the financial information and/or the document.
- A62. If, in assurance practitioner's professional judgement, the responsible party's disclosure is considered adequate, in terms of both the description of the principal events or conditions that contribute to cast significant doubt on the entity's going concern ability, as well as the fact that a material uncertainty exists related to the events or conditions and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business, then the auditor expresses an unmodified conclusion, with an emphasis of matter paragraph. The emphasis of matter paragraph is intended to highlight the existing of the material uncertainty and to draw attention to the responsible party's disclosures.
- A63. If in the assurance practitioner's professional judgement disclosure is inadequate, the assurance practitioner expresses a qualified or adverse conclusion.

**Consent to the Inclusion of the Assurance Report in a Public Document**  
(Ref: Para. 63-64)

- A64. For assurance reports in connection with a document prepared in accordance with the *Corporations Act 2001*, the assurance practitioner is required to consent to the form and context in which the assurance report is included in that public document.<sup>73</sup> Consequently, the assurance practitioner ordinarily reads all other information included in the public document to consider whether it contains any material inconsistencies or material misstatements of fact as compared to the historical financial information.
- A65. The assurance practitioner needs to consider the following in providing consent for the inclusion of the Investigating Accountant's Report in the document:
- (a) that the assurance practitioner only takes responsibility for that section in the document that was agreed in the terms of the engagement;

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<sup>73</sup> See Section 716 of the *Corporations Act 2001*.

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- (b) that it is appropriately cross references and consistent with other information disclosed in the document; and
  - (c) appropriately positions in the document in relation to the financial information on which the assurance practitioner gives assurance.
- A66. There may be some circumstances where the assurance practitioner does not consider it appropriate to provide the consent. For example:
- (a) where there are material inconsistencies between the historical financial information and other information which remain uncorrected by the responsible party;
  - (b) where there are material misstatements of fact between the historical financial information and other information which remain uncorrected by the responsible party; or
  - (c) where the assurance practitioner does not consider the assurance report will be used for the intended purpose.

**Documentation** (Ref: Para. 65)

- A67. Sufficient appropriate documentation<sup>74</sup> should include a record of the assurance practitioner's reasoning on all significant matters that required the exercise of professional judgement, together with the assurance practitioner's conclusions on the matters. In areas involving difficult questions of estimate, principle or judgement, the documentation should include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.
- A68. In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner ordinarily considers what would be necessary by another experienced assurance practitioner who has no previous experience with the assurance engagement to provide an understanding of the work performed and the basis of the significant decisions taken. It is, however, neither necessary nor practicable to document every matter the assurance practitioner considers during the assurance engagement.

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<sup>74</sup> The concepts and discussions on documentation relevant to an audit engagement are contained in Auditing ASA 230 *Audit Documentation*, and may be helpful in determining appropriate documentation to be obtained in an assurance engagement.

## **Pro Forma Historical Financial Information**

### **Agreeing on the Terms of the Assurance Engagement** (Ref: Para. 68)

A69. Ordinarily the assurance practitioner only provides limited assurance on pro forma historical financial information, as the adjustments made to the base financial information (which is historical) are based on a stated basis of preparation, which are selected by the responsible party. The assurance practitioner has no responsibility under the terms of the assurance engagement to perform an assessment of the appropriateness or otherwise of the selected stated basis of preparation.

### **Planning the Assurance Engagement**

#### *Planning Activities* (Ref: Para. 69)

A70. In addition to the application and other explanatory material in paragraph A19, the following planning activities assist the assurance practitioner in the planning process:

- (a) understanding what historical financial information has been selected to use as the base for the preparation of the pro forma historical financial information;
- (b) understanding whether the base financial information has been audited or reviewed, and if so, the extent of work performed, and the type(s) of opinion expressed in the auditor's report;
- (c) discussing with the responsible party what recognition and measurement accounting policies have been used as the stated basis of preparation;
- (d) about any recent key changes in the entity's business activities, and how it affects the pro forma historical financial information;
- (e) identifying the pro forma adjustments (including consolidation adjustments) and pro forma transactions that have been made;
- (f) understanding the methodology used by the responsible party for the adjusting the base financial information by the pro forma adjustments;

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- (g) whether the use of experts<sup>75</sup> or other persons with specialised skills is required for the engagement. They may be used for example, in determining:
  - (i) whether the pro forma adjustments were prepared in accordance with the stated basis of preparation;
  - (ii) the suitability of the stated basis of preparation;
  - (iii) evaluating particular pro forma adjustments (for example adjustments that are complex or highly subjective in nature); and
  - (iv) assessing the impact of certain contractual provisions on the pro forma historical financial information.

**Performing the Engagement** (Ref: Para. 70)

*Assurance Procedures*

A71. In addition to the application and other explanatory material in paragraph A22 of this ASAE, when designing and performing assurance procedures, the assurance practitioner's procedures on pro forma historical financial information ordinarily include:

- (a) determining, through enquiry and analytical procedures, whether the base historical financial information selected by the responsible party:
  - (i) has been previously audited or reviewed, and the results of that audit or review;
  - (ii) about the process by which the base historical financial information has been prepared and the reliability of the underlying accounting records to which such financial information is agreed or reconciled;
  - (iii) reflects any changes made to the recognition and measurement accounting policies from the prior

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<sup>75</sup> The concepts and discussions on placing reliance on the work of another auditor relevant to an audit engagement are contained in ASA 620 *Using the Work of an Auditor's Expert* which may be useful to assurance practitioners when determining the extent, if any, of such reliance in the conduct of an assurance engagement.

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time period, and if so, the nature of the change and its effect;

- (iv) reflects the results of any identified uncorrected immaterial misstatements from the prior year's financial report;

and therefore provides a reasonable basis for the preparation of pro forma historical financial information;

- (b) reading the comparable prior time period financial report and, as appropriate, the most recent annual or interim financial report;
- (c) where applicable, reading the most recent audit or review working papers relating to the entity's financial report to identify any matters that may affect the base historical financial information;
- (d) understanding the pro forma adjustments and transactions made to the base historical financial information, including:
  - (i) what their purpose is:
    - ◆ to reclassify historical amounts, for example, for opening adjustments or for consistency between years;
    - ◆ to account for transaction specific effects, for example for significant changes to the entity including financing and asset structural changes;
  - (ii) whether they can be supported with evidence by the responsible party, and are relevant to the corporate fundraising;
  - (iii) whether they are historical in nature, and hence reflect transaction results achieved in the actual time period in which they occurred:
    - ◆ if the adjustments reflect anticipated transactions or events that have not yet happened, or will not happen, they are known as "as if" adjustments; or

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- ◆ if adjustments are made to reflect the indirect results of events or transactions as if they had been achieved in a prior time period or earlier in the current period, rather than when they were actually achieved, they are still “as if” adjustments;
  - and are not historical in nature and hence are not appropriate to make to financial information that is prepared as being pro forma historical financial information. Examples include adjustments made to reflect changes to financial costs as a result of new or revised fundraising structures, or assuming a business was acquired at an earlier date.
- (iv) ensuring all pro forma adjustments considered material by the responsible party and the assurance practitioner are:
  - ◆ reflected in the resultant pro forma financial information. Pro forma adjustments are ordinarily considered material if their omission causes the pro forma historical financial information to be misleading; and
  - ◆ adequately disclosed, quantified and the reason(s) for the adjustment explained in the document;
- (v) reviewing and assessing the suitability of pro forma transactions and adjustments made, as compared to the stated basis of preparation (being the appropriate recognition and measurement accounting policies adopted by the entity, and as disclosed in the document
- (vi) confirming the mathematical accuracy of the calculations performed in deriving and applying the pro forma adjustments to the historical financial information in order to produce the pro forma historical financial information;
- (e) performing analytical procedures on the resultant pro forma historical financial information; and

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- (f) the adequacy of financial information disclosures included in the document, including whether its presented in columnar or tabular format, consisting of base financial information, pro forma adjustments and resulting pro forma historical financial information.

## **Pro Forma Forecast**

### **Engagement Acceptance**

#### *Preconditions for Acceptance* (Ref: Para. 77)

A72. Assurance engagements on a pro forma forecast that ordinarily result in a limited assurance conclusion being expressed. This is due to its nature being related to events and actions that have not yet occurred, and may not occur. Evidence available to support the underlying assumptions may be available, however such evidence is itself generally future orientated and, therefore, speculative in nature. The assurance practitioner is therefore not in a position to express an opinion as to whether the results shown in the pro forma forecast will be achieved. Further given the nature of the evidence available in assessing the reasonableness of the assumptions on which the pro forma forecast is based, it is ordinarily difficult of the assurance practitioner to obtain a level of satisfaction sufficient to express a reasonable assurance conclusion that the assumptions are free of material misstatement. Consequently, the assurance practitioner ordinarily provides a limited assurance conclusion on such assumptions.

#### **Agreeing on the Terms of the Assurance Engagement** (Ref: Para. 79)

A73. Any pro forma transactions and adjustments made to the base financial information (which maybe historical or a mixture of historical forecast), together with any assumptions made, are based on a stated basis of preparation, which is selected by the responsible party. The assurance practitioner has no responsibility under the terms of the assurance engagement to perform an assessment of the appropriateness, or otherwise, of that selected stated basis of preparation.



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**Planning the Assurance Engagement** (Ref: Para. 80)

*Planning Activities*

- A74. In addition to the application and other explanatory material in paragraph A19, the following planning activities assist the assurance practitioner in the planning process:
- (a) understanding any applicable law(s) or regulation(s) that may be applicable to the assurance engagement;
  - (b) understanding the needs of users of the pro forma forecast;
  - (c) applicable internal control over the information systems used to capture and record the prospective financial information, and the expertise of the persons responsible for these systems;
  - (d) assessing the suitability of the recognition and measurement accounting policies used as the stated basis of preparation, as well as determining, for instance:
    - (i) the appropriateness of any transactions or adjustments made to the base financial information;
    - (ii) the appropriateness of the pro forma adjustments;
  - (e) the source of the base financial information used to prepare the pro forma forecast:
    - (i) if it has been sourced from a mixture of historical and forecast financial information, consider:
      - ◆ the reasoning for combining historical and forecast financial information;
      - ◆ whether the historical financial information has been previously audited or reviewed; the type(s) of opinion expressed in the auditor's report; and the extent to which it has been used; and
    - (ii) if it has been sourced from a forecast, consider
      - ◆ the source of the forecast;

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- ◆ the basis of preparation of the forecast (including the extent to which statistical, mathematical and computer-assisted techniques are used) and comparisons between this and the most recent historical financial information;
  - ◆ the basis of any assumptions used;
  - ◆ the applicable criteria used and time period covered;
- (f) whether the adjustments are historical in nature, or “as if”:
- (i) if the adjustments reflect actual transactions or events achieved in the actual time period in which they occurred, they are historical adjustments; or
  - (ii) if the adjustments reflect anticipated transactions or events that have not yet happened, or will not happen; or the indirect results of events or transactions as if they had been achieved in a prior time period or earlier in the current period, rather than when they were actually achieved they are known as “as if” adjustments;
- (g) the methods used to develop and apply the assumptions;
- (h) if the assurance practitioner has previous knowledge of the entity’s historical financial information, this may be used to provide a measure for assessing the reasonableness of the assumptions used in the preparation of the pro forma forecast;
- (i) the accuracy of any forecast(s) prepared in prior time periods and the reasons for material variances;
- (j) the nature of the documentation prepared by the entity supporting the assumptions used in the preparation of the pro forma forecast;
- (k) the nature of any pro forma adjustments (including consolidation adjustments) that have been made;

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- (l) the methodology used by the responsible party for the combination of the base financial information with forecast financial information, and the pro forma adjustments;
- (m) other relevant financial information available in the public domain;
- (n) applicable internal control over the information systems used to capture and record the financial information, and the expertise of the persons responsible for these systems;
- (o) establishing and evaluating the continued appropriateness of quantitative materiality levels, and where appropriate, considering qualitative materiality factors;
- (p) developing expectations for use when performing analytical procedures;
- (q) designing and performing further assurance procedures to reduce assurance engagement risk to an appropriate level;
- (r) evaluating evidence, including the reasonableness of the responsible party's oral and written representations; and
- (s) the adequacy of financial information disclosures included in the document.

**Performing the Engagement** (Ref: Para. 81)

*Assurance Procedures*

Source Data

A75. In addition to the application and other explanatory material in paragraph A22, when designing and performing assurance procedures, the assurance practitioner's procedures on the source data for the pro forma forecast ordinarily include:

- (a) determining if the base financial data is sourced from a forecast or a mixture of forecast and historical financial information;
- (b) evaluating the adequacy and reliability of the source used, including the extent of reliance (if any) provided by prior time period audited or reviewed financial reports;

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- (c) if the base financial information is forecast:
- (i) consider the accuracy of any forecast(s) prepared in prior time periods and the reasons for material variances;
  - (ii) consider the basis of preparation of the forecast (including the extent to which statistical, mathematical and computer-assisted techniques are used) and comparisons between this and the most recent historical financial information;
  - (iii) understanding the extent to which statistical, mathematical modelling, and other techniques have been used, and the reliability thereof;
- (d) if the base financial information is mixture of forecast and historical financial information:
- (i) if the historical financial information has been previously audited or reviewed:
    - ◆ assess the impact of the opinion expressed on the assurance engagement;
    - ◆ where possible, read the associated audit or review working papers relating to the entity's financial report to identify any matters that may affect the base financial information; and
  - (ii) if the historical financial information has not been previously audited or reviewed, evaluate the appropriateness of its source, and its reliability and agree the base financial information to underlying accounting records.

**Pro forma Transactions and Adjustments**

- A76. In addition to the application and other explanatory material in paragraph A22, when designing and performing assurance procedures, the assurance practitioner's procedures on the pro forma transactions and pro forma adjustments for the pro forma forecast ordinarily include:

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- (a) reflects the results of any identified uncorrected immaterial misstatements from the prior year's financial report;
- (b) reflects any changes made by the responsible party to the recognition and measurement accounting policies from the prior time period, and if so, the nature of the change and its effect;
- (c) reviewing the documentation prepared by the entity to support the adjustments and transactions;
- (d) ensuring all pro forma adjustments considered material by the responsible party and the assurance practitioner are reflected in the resultant pro forma forecast. Pro forma adjustments are ordinarily considered material if their omission causes the pro forma forecast to be misleading;
- (e) reviewing and assessing the suitability of pro forma transactions, adjustments and assumptions made, as compared to the stated basis of preparation (being the appropriate recognition and measurement accounting policies adopted by the entity, and as disclosed in the document;
- (f) confirming the mathematical accuracy of the calculations performed in deriving and applying the pro forma adjustments and transactions to pro forma forecast; and
- (g) the methodology used by the responsible party for the combination of the base financial information with the pro forma transactions and adjustments.

**Key Assumptions**

A77. In addition to the application and other explanatory material in paragraph A22, when designing and performing assurance procedures, the assurance practitioner's procedures on the assumptions for the pro forma forecast ordinarily include:

- (a) reading the comparable prior time period financial report and, as appropriate, the most recent annual or interim financial report; as this information may be used to provide a yardstick for assessing the reasonableness of the assumptions used in the preparation of the pro forma forecast;

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- (b) evaluating the source and reliability of the evidence supporting key assumptions including:
- (i) considering the assumptions in light of the historical financial information, including whether any reclassifications or adjustments have been made to reflect unusual or non-recurring items, or to correct known errors and uncertainties;
  - (ii) understanding the methods used to develop and apply assumptions, and the extent to which they are affected by the responsible party's judgement or are particularly sensitive to variation;
  - (iii) reviewing the entity's work papers accounting records and other documents, including those supporting underlying assumptions;
  - (iv) the degree of reliability of assumptions, for example, if the entity is introducing a new product, the forecast time period covered could be short and broken into small segments, such as months. Alternatively, if the entity's sole business owns a property under long-term lease, a relatively long prospective time period might be reasonable. It will also include considering:
    - ◆ the validity of the assumptions;
    - ◆ the likelihood of the assumptions actually occurring; and
    - ◆ the effect on the pro forma forecast if the assumptions vary;
  - (v) evaluating the risks or factors that may or may not be within the responsible party's control that could result in the forecast not being achieved, and that there may be a significant difference between the forecast and actual results suitability and reasonableness of the assumptions used as the basis for the preparation of the pro forma forecast;
  - (vi) an evaluation of whether the assumptions are within the entity's capacity to achieve;

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- (vii) the documentation available to support the assumptions; including any hypothetical assumptions to ensure there is a basis for their inclusion;
- (viii) any hypothetical assumptions used being immaterial, are not clearly unrealistic in their basis, and are consistent with the purpose of the pro forma forecast; and
- (ix) whether there are material hypothetical assumptions used in their preparation, and if so, take into account applicable law or regulation that might not allow the inclusion of such assumptions as such assumptions are very unlikely to have reasonable grounds as the basis of preparation.<sup>76</sup>

**Resultant Pro Forma Forecast**

A78. In addition to the application and other explanatory material in paragraph A22, when designing and performing assurance procedures, the assurance practitioner's procedures on the pro forma forecast in the document ordinarily include:

- (a) where applicable, consider the interrelationships of elements within the pro forma forecast (for example, the statement of financial performance and the cash flow statement);
- (b) perform analytical procedures on the pro forma forecast;
- (c) evaluate the appropriateness of the period of time covered by the pro forma forecast taking into account that it becomes more speculative as the length of the period covered increase:
  - (i) enquiry of the responsible party on the reasons for the choice of time period;
  - (ii) evaluate whether the time period is consistent with entity's normal reporting period so as to make it comparable, and therefore assists intended users make an informed assessment of the entity's prospects;

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<sup>76</sup> See RG 170

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- (iii) consider the operating cycle of the entity;
  - (iv) the degree of reliability of assumptions given the time period;
  - (v) the needs of the intended users of the pro forma forecast;<sup>77</sup>
  - (vi) when any elapsed portion of the current time period is included in the prospective financial information, the extent to which procedures need to be applied to the historical information will vary depending on the circumstances, for example, how much of the prospective time period has elapsed;
  - (vii) where there are legal or regulatory requirements and/or other authoritative guidance in respect of an acceptable time period for the pro forma forecast to cover;
- (d) making clerical checks such as re-computation and reviewing internal consistency; that is, the actions the responsible party intends to take are compatible with each other and there are no inconsistencies in the determination of the amounts that are based on common variables, such as interest rates;
- (e) assessing the accuracy of any pro forma forecasts prepared in prior time periods as compared to actual financial results, and the reasons provided for significant variances;
- (f) performing an assessment whether the preparation of the pro forma forecast is prepared on a reasonable basis, and is not misleading, based on evidence obtained throughout the engagement;
- (g) determining the appropriateness of the recognition and measurement accounting policies used by the responsible party:
- (i) understanding the processes for selecting and approving the application of such policies;

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<sup>77</sup> For example, see ASIC's RG 170, paragraph 170.29, for guidance regarding what timeframe ASIC considers is reasonable for the inclusion of prospective financial information.



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- (ii) the differences, if any, between the policies adopted in the prospective financial information as compared to the most recent financial report;
  - (iii) the differences, if any, between the recognition and measurement accounting policies adopted compared to those from applicable Australian Accounting Standards (including those which have been, or are proposed to be, supersede by the Australian Accounting Standards Board);
  - (iv) any change in accounting policy since the most recent financial report is disclosed along with the reason for the change, and its effect on the pro forma forecast;
  - (v) considering the impact of any changes on the underlying recognition and measurement of the pro forma forecast in terms of whether it causes the prof forma forecast to be misleading; and
  - (vi) assessing the suitability of the recognition and measurement accounting policies and principles used as applicable criteria for the preparation of the pro forma forecast;
- (h) evaluating evidence, including the reasonableness of the responsible party's oral and written representations;
- (i) making enquires of the responsible party, other experts and relevant parties; and
- (j) where the assurance practitioner identifies matters requiring further investigating, designing and performing further assurance procedures, if required, to reduce assurance engagement risk to an appropriate level.

**Disclosure of Pro Forma Forecast**

A79. In addition to the application and other explanatory material in paragraph A22, when designing and performing assurance procedures, the assurance practitioner's procedures on the disclosures of the pro forma forecast in the document ordinarily include:

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- (a) appropriate disclosures are made in the document to enable the intended users to assess the assumptions:
  - (i) the validity of the assumptions on which the forecast is based;
  - (ii) the likelihood of the assumptions actually occurring;
  - (iii) the effect on the forecast if the assumptions vary;
  - (iv) where applicable, a clear distinction between best-estimate assumptions and hypothetical assumptions;
  - (v) material assumptions are adequately disclosed in the document, and are clearly identified as representing the responsible party's best-estimate and are based on reasonably objective grounds, and hence are not subject to a high degree of uncertainty;
- (b) such accounting policies as were applied in the preparation of the pro forma forecast; and
- (c) a clear statement by the responsible party that the pro forma forecast, is by nature predictive, given it is based on assumptions, and the actual results may differ materially.<sup>78</sup>

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

(Ref: Para. 82)

A80. The assurance practitioner ordinarily expresses a limited assurance conclusion in respect of both the pro forma forecast and the assumptions, due to the nature of evidence available. Such evidence is primarily obtained through enquiry and analytical procedures.

- (a) While evidence may be available to support the underlying assumptions, such evidence is itself generally future oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the audit or review of historical information. Consequently, when reporting on the reasonableness of the responsible party's assumptions,

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<sup>78</sup> See RG 170, para 170.88.

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the assurance practitioner ordinarily provides only a limited level of assurance on the assumptions.

- (b) The assurance practitioner is therefore not in a position to conclude as to whether the results shown in the pro forma forecast will be achieved. If it is expressed as a range, the assurance practitioner cannot conclude, or provide any assurance that actual results will fall within the range.

### **Aggregated Pro Forma Financial Information**

#### **Assurance Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. 90)

- A81. Financial information that is aggregated is ordinarily in the form of pro forma financial information, which is sourced from different entities to a corporate fundraising. Aggregated financial information is designed to show the net result of amalgamating those entities financial information.

#### **Agreeing on the Terms of the Assurance Engagement** (Ref: Para. 91)

- A82. Ordinarily the assurance practitioner is not required in an engagement to opine on aggregated pro forma financial information to:
- (a) evaluate the appropriates of the applicable criteria or the stated basis of preparation, as applicable, as part of the engagement terms; or
- (b) express assurance on whether the aggregated financial information is prepared in all material respects in accordance with the recognition and measurement accounting policies adopted by the entity, as prescribed by the applicable financial information framework.

#### **Performing the Engagement** (Ref: Para. 92)

*Assurance Procedures*

- A83. In addition to the applicable and other explanatory material in paragraph A22, when designing and performing assurance procedures, the assurance practitioner's procedures on aggregated financial information ordinarily include:

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- (a) determining through enquiry and analytical procedures the process taken by the responsible party to extract and aggregate different sources of pro forma financial information;
- (b) consider the evidence supporting the adjustments including how adjustments are identified and made to the source pro forma financial information;
- (c) evaluate the differences, if any, in the responsible party's application of the recognition and measurement accounting policies previously adopted by the entity to the aggregated pro forma financial information;
- (d) whether the aggregated pro forma financial information is materially in accordance with the applicable criteria; and
- (e) the adequacy of pro forma financial information disclosures included in the document.

**Prospective Financial Information**

**Assurance Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. 96)

- A84. The responsible party is ultimately responsible for the preparation and presentation of all information (including all assumptions and applied criteria used as the basis for the prospective financial information) in the document. The responsible party may engage other experts (for example, tax advisors, business advisors, or legal counsel) who may prepare, assist with the preparation, or provide independent advice on, the information included in the document; however it is the responsible party who retains responsibility for such information. The only exception to this being that the responsible party is not responsible for the content of reports prepared by other parties/experts which are included, by consent, in the document.
- A85. Assurance engagements on prospective financial information ordinarily result in a limited assurance conclusion being expressed on the prospective financial information and its underlying assumptions. This is due to the nature of the prospective financial information being related to events and actions that have not yet occurred, and may not occur. Evidence available to support the

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underlying assumptions may be available, however such evidence is itself generally future orientated and, therefore, speculative in nature. The assurance practitioner is therefore not in a position to express an opinion as to whether the results shown in the prospective financial information will be achieved. Further given the nature of the evidence available in assessing the reasonableness of the assumptions on which the prospective financial information is based, it is ordinarily difficult of the assurance practitioner to obtain a level of satisfaction sufficient to express a reasonable assurance conclusion that the assumptions are free of material misstatement. Consequently, the assurance practitioner ordinarily provides a limited assurance conclusion on best-estimate assumptions.

Other Factors Affecting Engagement Acceptance (Ref: Para. 97-99)

A86. The assurance practitioner should not accept an assurance engagement unless the assurance practitioner is satisfied based on preliminary knowledge:

- (a) that there is the engagement has a rational purpose. Examples where this may be the case include:
  - (i) the prospective financial information does not have reasonable grounds for inclusion in a public document (for example it is a projection);<sup>79</sup>
  - (ii) the prospective financial information is not materially affected by hypothetical assumptions;
  - (iii) if there is a significant limitation on the scope of the assurance practitioner's work; or
  - (iv) if engagement circumstances lead the assurance practitioner to believe that the responsible party intends to associate the assurance practitioner's name with the financial information in an inappropriate manner;
- (b) the nature and viability of the entity's operations, reputation, economic and legal/regulatory environment, and industry in which it operates are satisfactory;

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<sup>79</sup> For prospective financial information included in a public document, see the *Corporations Act 2001* for requirements.

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- (c) the most recent financial reporting results are satisfactory; and
  - (d) the past record, if applicable, of the responsible party in preparing prospective financial information, including the underlying assumptions, is satisfactory.
- A87. In obtaining an preliminary understanding of the assumptions, and whether they are expected to have a reasonable basis, the assurance practitioner ordinarily considers matters such as:
- (a) the nature of the assumptions (best-estimate or hypothetical), and whether their impact on the prospective financial information is material or not;
  - (b) the economic viability of the entity, the stability of its business and its financial strength;
  - (c) the economic viability and economic substance of the corporate fundraising transaction that underlies the assumptions;
  - (d) the quality (for example the data is sourced from statistical, mathematical or computer-assisted techniques) of the data and availability of data supporting the assumptions, including those derived from third parties; and
  - (e) the assurance practitioners past experience, if applicable, with the accuracy of the entity's preparations of prospective financial information as against actual results.
- A88. If the responsible party is not also the engaging party, the assurance practitioner ordinarily considers the effect this may have on their ability to access to records, documentation and other information that may be needed by the assurance practitioner to complete the engagement.
- A89. In circumstances where the assurance practitioner is a member of a firm which is also providing to the entity other non-assurance services in respect of the document, the assurance practitioner should consider relevant ethical requirements (including independence), and the requirements of applicable law, regulation or professional standards when considering whether to accept the assurance engagement. Examples of non-assurance services commonly provided include the preparation of taxation information

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and other consulting services. The provision of such non-assurance services by the assurance practitioner is not within the scope of this ASAE.<sup>80</sup>

**Agreeing on the Terms of the Assurance Engagement**

- A90. Acknowledgement by the responsible party in writing via acceptance of the engagement letter provides evidence that the appropriate relationship exists, that it accepts its responsibilities, and establishes a basis for a common understanding of the responsibility of each party. It also avoids misunderstandings of the agreed terms. (Ref: Para. 100)
- A91. In the absence of a written acknowledgement of responsibility by the responsible party, via acceptance of the engagement letter, the assurance practitioner should consider whether it is appropriate to accept the assurance engagement. Accepting the assurance engagement may be appropriate when, for example, other sources, such as applicable law, regulation, or a contract, acknowledge, or indicate, such responsibility. For example, under the *Corporations Act 2001*,<sup>81</sup> the directors of an entity are deemed responsible for the prospective financial information included in a public document used in offering securities. (Ref: Para. 100)
- A92. The terms of the assurance engagement letter ordinarily includes: (Ref: Para. 101)
- (a) an introductory section that covers the assurance practitioner's understanding of the terms of the engagement including:
    - (i) the type of financial information, the time period covered, the source of the financial information, and the type of document (if any) the financial information will appear in and for who and what purpose it has been prepared;
    - (ii) if applicable, the nature of the underlying transaction/event giving rise to the assurance engagement;

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<sup>80</sup> Refer APES 350 *Participation by members in public practice in due diligence committees in connection with a public document* (January 2011), issued by the Accounting Professional and Ethical Standards Board

<sup>81</sup> See Section 717 of the *Corporations Act 2001* for an overview of the procedures for offering securities.

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- (iii) a statement that the assurance practitioner is independent of the responsible party, and of the prospective financial information;
- (b) outline of the scope of the engagement:
  - (i) that assurance procedures will be performed on the prospective financial information in order for the assurance practitioner to be able to issue a limited assurance conclusion; and
  - (ii) confirmation that the engagement will be conducted in accordance with this ASAE and if applicable, particular law or regulation (for example the *Corporations Act 2001*) and ethical and other pronouncements of professional bodies to which the assurance practitioner adheres;
- (c) details of the assurance procedures that will be performed. The assurance practitioner exercises professional judgement in what specific assurance procedures are summarised in the engagement letter, taking into account the nature of the financial information, and the engagement circumstances. Examples of procedures that could be included are:
  - (i) analytical review procedures;
  - (ii) review and consideration of key work papers, accounting records and other documents prepared by the responsible party and other experts;
  - (iii) enquiry of, and discussion with, the responsible party, those charged with governance, management, experts, and other parties related to the prospective financial information;
  - (iv) examination, on a test basis, of evidence supporting the prospective financial information, and the best-estimate assumptions used;
  - (v) comparisons of consistency in the application of recognition and measurement principles contained in the applicable financial reporting framework as compared to the accounting policies adopted by the entity in the preparation of the prospective



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financial information, and disclosed in the document;

- (d) a statement that the assurance practitioner is not performing an audit, and accordingly no audit opinion will be expressed on the prospective financial information;
- (e) whether the assurance practitioner will have sufficient access to all required financial information in order to form the assurance conclusion;
- (f) details of the type of wording to be included in the limited assurance conclusion;
- (g) confirmation that the assurance practitioner will issue an assurance report relating to the prospective financial information for inclusion in the document;
- (h) confirmation that the assurance practitioner will rely on the fact that the responsible party is responsible for:
  - (i) the preparation and presentation of the prospective financial information,
  - (ii) for the document within which the prospective financial information is included (if applicable); and
  - (iii) issuing the document (if applicable);
- (i) the expectation that the responsible party will provide written representations.
- (j) agreement from the responsible party:
  - (i) to make available to the assurance practitioner financial information and any accompanying other information in time to allow the assurance practitioner to complete the engagement in accordance with the proposed timetable; and
  - (ii) to inform the assurance practitioner of factors that may affect the assurance report, of which the responsible party may become aware during the

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time period from the date of the assurance report to the date it is issued.

- (k) documented important deadlines/timelines for the completion of the assurance engagement. This may include deadlines such as the expected date of publication of the document and when the assurance practitioner's consent is required;
- (l) arrangements regarding the planning and performance of the engagement; including the composition of the engagement team (including any experts);
- (m) arrangements for the assurance practitioner to:
  - (i) attend meetings such as the due diligence committee meetings (if appropriate under the terms of the assurance engagement);<sup>82</sup>
  - (ii) receive draft and final versions of the document in a timely manner when requested; and
  - (iii) use the service(s) of the responsible party's experts and/or the assurance practitioner's experts; and
  - (iv) communicate directly with the entity's external auditor and/or other professional advisers regarding matters relevant to the prospective financial information;
- (n) the form and context of any published consent that the assurance practitioner has agreed to include in the document. For example, in respect of public documents prepared in accordance with the *Corporations Act 2001*<sup>83</sup> and lodged with the Australian Securities and Investments Commission (ASIC) entities intending to distribute the document in both electronic and paper form, must also obtain the assurance practitioner's consent in both forms as well;<sup>84</sup> and

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<sup>82</sup> See APES 350 *Participation by Members in Public Practice in Due Diligence Committees in Connection with a Public Document* (December 2009), issued by the Accounting Professional and Ethical Standards Board.

<sup>83</sup> See Section 716 of the *Corporations Act 2001*.

<sup>84</sup> See ASIC Regulatory Guide 107 *Electronic Prospectuses*.

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- (o) a request for the responsible party to acknowledge receipt of the engagement letter and to agree to the terms of the engagement contained in the letter.

A93. The responsible party who signs the engagement letter should be the ultimate responsible party of the entity, or an authorised representative/officer thereof, recognising that in certain circumstances, the directors of the entity (being those charged with governance) may not be appointed by the stage of agreeing the terms of the engagement or the entity may not be in existence when the engagement commences (for example, a new company structure). In such cases, the assurance practitioner considers whether to update and re-issue the engagement letter terms for a change of responsible party. (Ref: Para. 101)

A94. Appendix 2 provides an illustrative example engagement letter for an assurance engagement relate to a corporate fundraising. (Ref: Para. 101)

**Changes in the Terms of the Assurance Engagement** (Ref: Para. 102-104)

A95. Any change in agreed terms proposed by the responsible party throughout the assurance engagement should be appropriately justified to the assurance practitioner's satisfaction before the assurance practitioner agrees to the changes. Examples of when requests from the responsible party may be received include a change to reflect a change in circumstances affected the need for the service, a misunderstanding of the nature of the assurance services to be provided. The assurance practitioner considers the implications of the proposed change on the conduct and reporting of the engagement, as well as any evidence that was obtained prior to the change.

A96. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change in the engagement.

A97. Certain proposed changes to the agreed terms by the responsible party that may be unacceptable to the assurance practitioner, and ordinarily would not be justified or agreed to include:

- (a) a change that affects the intended users' needs, or a misunderstanding concerning the nature of the assurance engagement;

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- (b) a change that relates to prospective financial information that is incorrect, incomplete or otherwise unsatisfactory;
  - (c) limiting time available to perform the engagement; preventing access to all relevant documents or persons requested; or
  - (d) not providing documents when requested, leading to time constraints that make the satisfactory completion of the assurance engagement by the date required unachievable.
- A98. It is important that all changes agreed to by the responsible party and the assurance practitioner be documented and approved in writing to ensure no misunderstanding of what has been agreed.

**Planning the Assurance Engagement**

*Planning Activities*

- A99. Planning the assurance engagement ordinarily involves obtaining an understanding of the nature of the prospective financial information, its preparation, and other assurance engagement circumstances to identify and understand events and transactions that may have a significant impact on the prospective financial information, or on the assurance report. The assurance practitioner is required to use professional judgement to determine the extent of the understanding that is needed of the nature of the prospective financial information and other assurance engagement circumstances.<sup>85</sup> The assurance practitioner ordinarily considers whether that understanding is sufficient to assess the risks that the prospective financial information may be materially misstated, and in order to be able to evaluate all significant assumptions used in its preparation.  
(Ref: Para. 106)
- A100. The agreed terms of the individual engagement determine the nature, timing and extent of procedures to be performed by the assurance practitioner. The following planning activities assist the assurance practitioner in this process: (Ref: Para. 107)

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<sup>85</sup> The concepts and discussions on complete set of financial statements relevant to an audit engagement are contained in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph Aus 13.1, and may be helpful in determining the components of a complete set of financial statements applicable to an assurance engagement.

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- (a) the extent of the assurance practitioner's understanding of the entity (which may have been gained from experience in conducting the prior audit(s) or review(s) of its financial report(s)):
- (i) whether the entity is in a start-up phase, or has been in operation for a number of years. If the entity is in start-up phase, the assurance practitioner ordinarily expands their planning activities so as to be able to obtain sufficient knowledge and understanding in order to meet the requirements of the engagement and this ASAE;
  - (ii) the size and complexity of the entity including its ownership, management structure, and financial resources;
  - (iii) the extent of its operations, and geographical locations in which it trades;
  - (iv) the industry and economic environment within which it operates;
  - (v) applicable laws and regulations primarily affecting its operations;
  - (vi) its key strategies for establishing and maintaining profitable operations;
  - (vii) the types of audit or review report conclusions previously issued by the entities' auditors;
- (b) whether the assurance practitioner has previously performed an audit or review of the entity's previous time period financial reports:
- (i) if this is the case, the assurance practitioner would ordinarily have acquired an understanding of the entity and its operations. This understanding would include knowledge of the entity's management skills and resources, information technology systems (including financial systems). This understanding would need to be updated to ensure it has not changed in the current time period; or

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- (ii) if this is not the case, the assurance practitioner ordinarily expands their planning activities so as to be able to obtain sufficient knowledge and understanding in order to meet the requirements of this ASAE;
- (c) obtaining an understanding of the prospective financial information, appropriate to the engagement:
  - (i) understanding the source of the prospective financial information (a forecast, or a combination of a forecast and a projection) or otherwise, and whether any of the base financial information has been subject to a prior audit or review;
  - (ii) understanding the basis of the assumptions used in the prospective financial information through enquiry;
  - (iii) understanding the applicable criteria used and time period covered;
  - (iv) understanding whether the prospective financial information is a forecast, a projection, or a combination of a forecast and projection;
  - (v) understanding the requirements of applicable law or regulation.<sup>86</sup>

Note that in certain engagement circumstances however, the assurance practitioner does not need to obtain a detailed understanding of the prospective financial information. For example, where the engagement relates a takeover or merger transaction, where the assurance practitioner has no access to the one of the parties financial information, or other entity to be merged, as appropriate, other than that available in the public domain.

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<sup>86</sup> Prospective financial information included in a public document under the *Corporations Act 2001* is required to be based on reasonable grounds<sup>86</sup> to be considered not misleading, so the assurance practitioner would need to perform plan and procedures that allow for an evaluation of whether the financial information is based on reasonable grounds. See section 728(2) and section 769C of the *Corporations Act 2001*. See ASIC's RG 170 *Prospective Financial Information*, paragraphs 170.17 and 170.20. See ASIC's RG 170 *Prospective Financial Information*, for further guidance on what constitutes "reasonable grounds", as well as some non-exhaustive examples of indicative factors that may suggest or demonstrate reasonable grounds.

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- (d) obtaining an understanding of whether comparative information is to be included in the document, and whether it will be restated;
- (e) obtaining an understanding of the other information included in the document to assess whether it is consistent with the prospective financial information;
- (f) developing expectations for use when performing analytical procedures;
- (g) the nature and extent of experts or other specialised skills involvement required for the engagement.<sup>87</sup> An expert may be internal (a partner or staff in the assurance practitioner's firm or network firm) or external to the firm. There may be circumstances when the assurance practitioner may require the services of an expert, particularly when obtaining sufficient appropriate evidence to support the assurance practitioner's conclusion. For example, when determining the suitability of applicable criteria used by the responsible party in preparing the prospective financial information.
- (h) the nature, timing, and extent of communications that will be required with the responsible party, and third party experts, and other advisors;
- (i) materiality considerations and assessment. However, ordinarily materiality is considered in terms of both quantitative and qualitative factors, such as relative magnitude, the nature, and extent of the effect of these factors on the assurance practitioner's evaluation of the financial information, and the intended users interests.<sup>88</sup> In determining materiality, the assurance practitioner needs to use professional judgement to understand and assess these factors, and how they might influence the decisions of intended users of the financial information in evaluating the

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<sup>87</sup> The concepts and discussions on using the work of experts relevant to an audit engagement are contained in ASA 620 *Using the Work of an Auditor's Expert*, and may be useful to assurance practitioners when determining their responsibilities when using the work of experts in assurance engagements.

<sup>88</sup> The concepts and discussions on establishing materiality relevant to an audit engagement are contained in ASA 320 *Materiality in Planning and Performing an Audit*, which may be useful to assurance practitioners when determining materiality in the conduct of an assurance engagement.

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prospects of the entity. Refer Appendix 3 for examples of the quantitative and qualitative factors of materiality;

- (j) assurance engagement risk. This risk comprises inherent risk, control risk and detection risk<sup>89</sup> and the assurance practitioner considers these risk components in terms of the engagement circumstances; in particular the nature of the financial information and whether a reasonable or limited assurance conclusion is sought. These considerations are then reflected in the extent of the planned procedures to be performed and the evidence-gathering process and
- (k) fraud risk considerations (where applicable).

A101. As detailed in ASAE 3000<sup>90</sup>, the suitability of the applied criteria used by the responsible party ordinarily has particular characteristics that the assurance practitioner is able to use in their evaluation of whether the applicable criteria has been applied by the responsible party. These characteristics include relevance, completeness, reliability, neutrality, and understand ability. When dealing with prospective financial information prepared for use in a corporate fundraising transaction, or for other purposes, the responsible party ordinarily develops specific criteria to meet their requirements. (Ref: Para. 107(g))

*Reliance on the work of another Assurance Practitioner* (Ref: Para. 108-109)

A102. Ordinarily, another assurance practitioner will not permit reliance to be placed on their assurance report (regardless of whether it is an audit report or review report), as the report was prepared and issued for another purpose other than that subject to the current assurance engagement. In these cases, the assurance practitioner needs to consider what additional assurance procedures may be required to plan and perform in order to obtain sufficient and appropriate evidence on the base financial information.<sup>91</sup> The assurance practitioner should therefore consider the extent (if any) to which

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<sup>89</sup> The concepts and discussions on assurance engagement risk relevant to an audit engagement are contained in ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, which may be useful to assurance practitioners when determining assurance engagement risk in the conduct of an assurance engagement.

<sup>90</sup> See ASAE 3000, paragraphs 35-39 (inclusive).

<sup>91</sup> The concepts and discussions on placing reliance on the work of another auditor relevant to an audit engagement are contained in ASA 620 *Using the work of an Auditor's Expert and ASA 600 Special Considerations - Audit of a Group Financial Report (Including the Work of Component Auditors)* which may be useful to assurance practitioners when determining the extent, if any, of such reliance in the conduct of an assurance engagement.



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reliance can be placed on the work of the other assurance practitioner, taking into account:

- (a) Whether the assurance practitioner can obtain access to the audit working papers.
- (b) Whether the other assurance practitioner permits reliance to be placed on the work.
- (c) The purpose for which the other work was performed.
- (d) Audit materiality levels set.
- (e) Audit approach taken.
- (f) Audit differences (if any) identified.
- (g) Type of opinion expressed in the auditor's report, and if applicable, reasons for a modified opinion.

**Performing the Engagement**

*Assurance Procedures* (Ref: Para. 110-111)

Source Data

A103. When designing and performing assurance procedures, the assurance practitioner considers the adequacy, relevance and reliability of the information obtained to be used as evidence.<sup>92</sup> The extent of procedures and evidence required depends on the agreed terms of the assurance engagement, type of assurance to be obtained, and the type of financial information involved. The assurance practitioner's procedures on the source data for the prospective financial information ordinarily include:

- (a) determining if the base financial information is sourced from a forecast or a mixture of a forecast and a projection;
- (b) evaluating the adequacy and reliability of the base (underlying) financial information/source data used;

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<sup>92</sup> The concepts and discussions on obtaining evidence relevant to an audit engagement are contained in ASA 500 *Audit Evidence* which may be useful to assurance practitioners when determining the extent, if any, of evidence required in the conduct of an assurance engagement.

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- (c) applicable internal control over the information systems used to capture and record the prospective financial information, and the expertise of the persons responsible for these systems;
- (d) if the base financial information is an mixture of a forecast and a projection:
  - (i) how the forecast and projection have been combined and consistency checked;
  - (ii) what documentation is available to support the inclusion of the projection;
  - (iii) whether the responsible party has a reasonable justification for its inclusion;
  - (iv) whether the projection has a material impact on the overall prospective financial information, and if so, whether applicable law or regulation allow the assurance practitioner to express an assurance conclusion on such prospective financial information;
- (e) if the base financial information is a forecast:
  - (i) consider the accuracy of any prospective financial information prepared in prior time periods as compared to actual financial results, and the reasons provided for significant variances;
  - (ii) consider the basis of preparation of the forecast, (including the extent to which statistical, mathematical, and computer-assisted techniques are used) and comparisons between this and the most recent historical financial information; and
  - (iii) understand the extent to which statistical, and mathematical modelling, and other techniques have been used, and the reliability thereof.

**Key Assumptions**

- A104. The assurance practitioner's procedures on the key assumptions for the prospective financial information ordinarily include:

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- (a) reading the comparable prior time period financial report and, as appropriate, the most recent annual or interim financial information, as this may be used to provide a yardstick for assessing the reasonableness of the assumptions used in the preparation of the prospective financial information;
- (b) understanding the source and reliability of the evidence supporting the best-estimate assumptions, including:
  - (i) considering the assumptions in light of historical financial information; including whether any reclassifications or adjustments have been made to reflect unusual or non-recurring items, or to correct known errors and uncertainties;
  - (ii) understanding the methods used to develop and apply assumptions, and the extent to which they are affected by the responsible party's judgement or are particular sensitive to variation;
  - (iii) reviewing the entity's work papers accounting records and other documents, including those supporting underlying assumptions;
  - (iv) evaluating the degree of reliability of assumptions, for example, if the entity is introducing a new product, the forecast time period covered could be short and broken into small segments, such as months. Alternatively, if the entity's sole business owns a property under long-term lease, a relatively long prospective time period might be reasonable. It will also include considering:
    - ◆ the validity of the assumptions;
    - ◆ the likelihood of the assumptions actually occurring; and
    - ◆ the effect on the pro forma forecast if the assumptions vary;
  - (v) evaluating the risks or factors that may or may not be within the responsible party's control that could result in the forecast not being achieved, and that

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there may be a significant difference between the forecast and actual results suitability and reasonableness of the assumptions used as the basis for the preparation of the prospective financial information;

- (vi) an evaluation of whether the assumptions are within the entity's capacity to achieve;
- (vii) the documentation available to support the assumptions; including any immaterial hypothetical assumptions, to ensure there is a basis for their inclusion;
- (viii) any hypothetical assumptions used being immaterial, are not clearly unrealistic in their basis, and are consistent with the purpose of the prospective financial information;
- (ix) whether there are material hypothetical assumptions used in their preparation, and if so, take into account applicable law or regulation that might not allow the inclusion of such assumptions as such assumptions are very unlikely to have reasonable grounds as the basis of preparation;<sup>93</sup>

(c) when results shown in the prospective financial information are expressed in terms of a range:

- (i) that it provides meaningful information about future prospects by not being too large in scale;
- (ii) evaluating the basis of establishing points in a range, and the range is not selected in a biased or misleading manner; and
- (iii) ensuring that the variables that will have a significant effect on the outcome within the range are disclosed in the document.

**Prospective Financial Information**

A105. The assurance practitioner's procedures on the prospective financial information ordinarily include:

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<sup>93</sup> See RG 170

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- (a) where applicable, consider the interrelationships of elements within the prospective financial information (for example, the statement of financial performance and the cash flow statement);
- (b) perform analytical procedures on the prospective financial information;
- (c) consider the appropriateness of the period of time covered by the prospective financial information taking into account that it becomes more speculative as the length of the period covered increase:
  - (i) enquiry of the responsible party on the reasons for the choice of time period;
  - (ii) evaluate whether the time period is consistent with the entity's normal reporting period so as to make it comparable, and therefore assists intended users make an informed assessment of the entity's prospects;
  - (iii) consider the operating cycle of the entity;
  - (iv) the degree of reliability of assumptions given the time period;
  - (v) the needs of the intended users of the prospective financial information;
  - (vi) when any elapsed portion of the current time period is included in the prospective financial information, the extent to which procedures need to be applied to the historical information will vary depending on the circumstances, for example, how much of the prospective period has elapsed;
  - (vii) where there are legal or regulatory requirements and/or other authoritative guidance in respect of an acceptable time period for the prospective financial information to cover.<sup>94</sup>

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<sup>94</sup> For example, see ASIC's RG 170, paragraph 170.29, for guidance regarding what timeframe ASIC considers is reasonable for the inclusion of prospective financial information.

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- (d) making clerical checks such as recomputations and reviewing internal consistency; that is, the actions the responsible party intends to take are compatible with each other and there are no inconsistencies in the determination of the amounts that are based on common variables, such as interest rates; of assumptions including those with common variables;
- (e) assessing the accuracy of any prospective financial information prepared in prior time periods as compared to actual financial results and the reasons provided for significant variances;
- (f) performing an assessment whether the preparation of the prospective financial information is prepared on a reasonable basis, and is not misleading, based on evidence obtained throughout the engagement;
- (g) determining the appropriateness of the recognition and measurement accounting policies used by the responsible party:
  - (i) understanding the processes for selecting and approving the application of such policies;
  - (ii) the differences, if any, between the policies adopted in the prospective financial information as compared to the most recent financial report;
  - (iii) the differences, if any, between the recognition and measurement accounting policies adopted compared to those from applicable Australian Accounting Standards (including those which have been, or are proposed to be, superseded by the Australian Accounting Standards Board);
  - (iv) any change in accounting policy since the most recent financial report is disclosed along with the reason for the change, and its effect on the prospective financial information;
  - (v) considering the impact of any changes on the underlying recognition and measurement of the prospective financial information in terms of

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- whether it causes the prospective financial information to be misleading;
- (vi) assessing the suitability of the recognition and measurement accounting policies and principles used as applicable criteria for the preparation of the prospective financial information;
  - (h) evaluating evidence, including the reasonableness of the responsible party's oral and written representations;
  - (i) making enquires of the responsible party, other experts and relevant parties; and
  - (j) where the assurance practitioner identifies matters requiring further investigating, designing and performing further assurance procedures, if required, to reduce assurance engagement risk to an appropriate level.

**Disclosure of Prospective Financial Information**

A106. The assurance practitioner's procedures on the disclosure of the prospective financial information in the document ordinarily include:

- (a) if it is a forecast, that appropriate disclosures are included in the document to enable the intended users to assess:
  - (i) the validity of the assumptions on which the forecast is based;
  - (ii) the likelihood of the assumptions actually occurring;
  - (iii) the effect on the forecast if the assumptions vary;
  - (iv) where applicable, a clear distinction between best-estimate assumptions and hypothetical assumptions;
  - (v) material assumptions are adequately disclosed in the document, and clearly identified as representing the responsible party's best-estimate and are based on reasonable objective grounds, and

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hence are not subject to a high degree of uncertainty;

- (b) such accounting policies as were applied in the preparation of the prospective financial information; and
- (c) a clear statement by the responsible party that the prospective financial information, is by nature, predictive, given it is based on assumptions, and actual results may differ materially.<sup>95</sup>

A107. When the assurance practitioner obtains oral representations from the responsible party in respect of matters supporting the prospective financial information, the assurance practitioner ordinarily:

- (a) Evaluates their reasonableness and consistency with other evidence obtained, including other representations.
- (b) Considers whether those making the representations can be expected to be well informed on the particular matters.
- (c) Obtains appropriate corroborative evidence.<sup>96</sup>
- (d) Documents the key aspects of the oral representation.

*Using the Work of an Expert* (Ref: Para. 113)

A108. The assurance practitioner needs to consider, when using the work of an expert, the following:

- (a) the nature of the work performed, and the risks of material misstatement in the expert's work;
- (b) assess whether the assumptions and methodologies that have been used seem reasonable, and draw on source data that appears to be appropriate;
- (c) the significance of that expert's work in the context of the engagement;

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<sup>95</sup> See RG 170, para 170.88.

<sup>96</sup> The concepts and discussions on corroborative evidence relevant in investigating unusual fluctuations relevant to an audit engagement are contained in Auditing ASA 520 *Analytical Procedures*, and may be helpful in determining appropriate corroborative evidence in an assurance engagement.



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- (d) the assurance practitioner's knowledge of and experience with previous work performed by that expert;
- (e) the extent of review of the expert's work by the assurance practitioner; and
- (f) the results/findings of the experts work, and whether it is to be included in the document.

*Adjustments identified by the Assurance Practitioner*

A109. The assurance practitioner should communicate matters relating to the prospective financial information, that in their professional judgement require the responsible party to make a material adjustment to the prospective financial information. Such communications may be made orally or in writing, and should be done as soon as the matter is identified to enable the responsible party to investigate the matter(s). The responsible party is then able to advise the assurance practitioner of their findings and provide supporting evidence, as well as their decision on whether they will make the adjustment to the prospective financial information. The assurance practitioner is then able to evaluate the evidence provided to consider if the responsible parties decision on the adjustment is acceptable to the assurance practitioner. (Ref: Para. 114)

A110. In circumstances where the responsible party does not make adjustment and the assurance practitioner disagrees with the decision, the assurance practitioner considers the implications for the assurance report. (Ref: Para. 115)

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

(Ref: Para. 116)

A111. The assurance practitioner uses professional judgement in determining the sufficiency and appropriateness of the evidence obtained based on the procedures performed. Evidence obtained by the assurance practitioner that is in quantity is a measure of the sufficiency of the evidence, whilst the quality of that evidence obtained is a measure of its appropriateness; that is, its relevance and its reliability.<sup>97</sup> The assurance practitioner ordinarily expresses a limited assurance conclusion in respect of both the prospective financial information and the best-estimate assumptions, due to the

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<sup>97</sup> The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500 *Audit Evidence*, and may be helpful in determining the evidence applicable to an assurance engagement.

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nature of the evidence available. While evidence may be available to support the underlying assumptions, such evidence is itself generally future oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the audit or review of historical information. Such evidence is primarily obtained through enquiry and analytical procedures. The assurance practitioner is not able to express a conclusion on any hypothetical assumptions used because by their nature, sufficient appropriate evidence is not available to support such assumptions. The assurance practitioner is therefore not in a position to conclude as to whether the results shown in the pro forma forecast will be achieved. If the pro forma forecast is expressed as a range, the assurance practitioner cannot conclude, or provide any assurance that actual results will fall within the range. (Ref: Para. 116)

- A112. If the assurance practitioner identifies that the prospective financial information may be materially misstated, or misleading, the assurance practitioner carries out additional procedures, or performs more extensive procedures to enable them to form a conclusion, including whether a modified conclusion is required. (Ref: Para. 117)

**Other Information included in the document** (Ref: Para. 118-119)

- A113. Material inconsistencies and misstatements of fact in other information that come to the assurance practitioner's attention may raise doubt about the conclusions drawn from evidence previously obtained and possibly, about the basis for the assurance practitioner's conclusion in the assurance report. Assurance practitioners need to pay particular attention to the form and content of the other information (for example if it is in graphical or table form) when looking for inconsistencies. When discussing an apparent material misstatement of fact with the responsible party, the assurance practitioner may not be able to sufficiently evaluate the validity of certain information and the responsible party's responses to the assurance practitioner's enquiries, and may conclude that valid differences of opinion or judgements exist.
- A114. If the assurance practitioner identifies material inconsistencies between the prospective financial information and the other information, the assurance practitioner discusses the inconsistency with the responsible party, and determine whether the prospective financial information and/or the other information needs to be revised. The assurance practitioner needs to consider the nature of the misstatement in terms of its possible impact on the prospective financial information, as well as the other information.

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- A115. If the assurance practitioner and the responsible party agrees to the revision, the assurance practitioner requests an updated copy of the document in order to ensure the revisions have been made.
- A116. If the responsible party refuses to make the revisions, the assurance practitioner considers whether to:
- (a) obtaining legal advice on the appropriate course of the action for the assurance practitioner;
  - (b) including in the assurance report an Other Matter paragraph<sup>98</sup> that describes the material inconsistency and/or misstatement of fact;
  - (c) withdrawing consent for the responsible party to include the assurance report in the document; and/or
  - (d) withdrawing from the assurance engagement, where the withdrawal is possible under applicable law or regulation.

**Going Concern Considerations** (Ref: Para. 120-122)

- A117. The assurance practitioner considers the appropriateness of the going concern assumption of the entity when the nature of the assurance engagement and the type of financial information being opined on means that such an assessment could have implications for the assurance report. Ordinarily in an engagement to report on prospective financial information, the going concern assumption is not relevant to the assurance practitioner's conclusion as the nature of the information is subjective, prospective (based on anticipated events or transactions that have not occurred) and its preparation requires the exercise of considerable judgement by the responsible party.
- A118. If the assurance practitioner considers that performing an going concern assessment<sup>99</sup> is relevant, the assurance practitioner ordinarily takes into account the entity's prepared forecasts, cash flow statements, Directors' working capital statements, and financial

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<sup>98</sup> The concepts and discussion on the use of an Other Matter paragraph relevant to an audit engagement are contained in ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8-Aus 8.1, determining its form, content and location in the Investigating Accountant's Report applicable to an assurance engagement.

<sup>99</sup> The concepts and discussions on performing an going concern assessment of an entity, relevant to an audit engagement are contained in Auditing ASA 570 *Going Concern*, and may be helpful in performing an going concern assessment in an assurance engagement.

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position and any other events or conditions that are relevant to the assessment. For example, if the prospects for profitability are not supported by adequate cash flows, then both the forecast financial performance statement and the ongoing viability of the entity are at risk. There may also be mitigating factors that in the assurance practitioner's professional judgement, eliminate the going concern uncertainty. These factors include:

- (a) unequivocal financial support provided from another entity which has the capacity to provide support, or
- (b) the underlying transaction or event giving rise to the document (for example, a capital raising) will raise sufficient funds to result in the entity becoming a going concern.

Such mitigating factors should be supported by appropriate written evidence. In such circumstances, the assurance practitioner needs to evaluate and document how the unequivocal financial support or proceeds from the fundraising issue will provide funding for future operations of the entity that will result in the entity becoming a going concern. The assurance practitioner should also consider requesting a written representation from the responsible party regarding the appropriateness of the going concern assumption.

A119. If the assurance practitioner does not consider the going concern assumption to be appropriate to the entity, the implications for the assurance report depend on whether the responsible party has modified the basis of preparation of the prospective financial information from that of a going concern:

- (a) if the assurance practitioner does not consider the basis to be appropriate, then the conclusion in the assurance report should be modified (adverse opinion) on the basis of the going concern assumption being inappropriate to the financial information;
- (b) if the assurance practitioner considers the basis to be appropriate, then the assurance report may include an emphasis of matter paragraph in the assurance conclusion to draw attention to the disclosure of this fact in the prospective financial information.

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**Consideration of Events up to the date of the Assurance Report**

(Ref: Para. 123-124)

- A120. The extent of consideration by the assurance practitioner of events or transactions occurring after the date of performing assurance procedures and before the date of the assurance report (commonly referred to as subsequent events) depends on:
- (a) the agreed terms of engagement for reporting of subsequent events;
  - (p) the potential for such events:
    - (i) to materially affect the prospective financial information in the document in terms of requiring comment on, or adjustment to, the prospective financial information; and
    - (ii) whether the events or transactions causes the prospective financial information to be misleading or deceptive;
  - (b) whether such events or transactions are within the ordinarily business of the entity; and
  - (c) the requirements of applicable law, regulation, or professional standards.<sup>100</sup>

**Consideration of Events Identified after the date of the Assurance Report**

(Ref: Para. 125-126)

- A121. If there are material deficiencies, misleading statements, or significant matters omitted from the document, which come to the assurance practitioner's attention after:
- (a) in the case of a public document:
    - (i) after it has been lodged with the appropriate regulatory body, and
    - (ii) before the relevant date,

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<sup>100</sup> The concepts and discussions on subsequent events relevant to an audit engagement are contained in Auditing Standard ASA 560 *Subsequent Events*, and may be helpful in determining the principles applicable to an assurance engagement.

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the assurance practitioner considers the implications for the assurance report, as well as any reporting obligations the assurance practitioner may have to inform the entity making the offer; or

- (b) in the case of document other than a public document:
  - (i) after it has been finalised and issued to its intended user(s), and
  - (ii) before the relevant date,

the assurance practitioner considers the implications for the assurance report, as well as any reporting obligations the assurance practitioner may have to inform the entity making the offer.

A122. If there are material deficiencies, misleading statements, or significant matters omitted from the document:

- (a) related to the prospective financial information on which the assurance practitioner has opined in the assurance report;
- (b) which have been omitted by the entity from the document;
- (c) which come to the assurance practitioner's attention after the relevant date; and
- (d) the entity has not amended the document, or issued a supplementary document to correct such material deficiencies, misleading statements, or the omission of significant matters;

the assurance practitioner needs to withdraw consent for the entity to include the assurance report in the document, and consider if there are any other applicable law or regulation that impose particular reporting obligations on the assurance practitioner.

**Written Representations** (Ref: Para. 127-130)

A123. The assurance practitioner needs to request, and obtain, a written representation letter from the responsible party at the completion of

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the assurance engagement.<sup>101</sup> The assurance practitioner ordinarily provides the responsible party with a specific list of matters requiring the responsible party's representations. Such matters may be already be contained in documentation reviewed by the assurance practitioner, including minutes of meetings, written acceptance of the engagement terms, and DDC reports, and therefore the assurance practitioner only needs to request the inclusion of such matters in the written representation letter if the assurance practitioner considers it appropriate in the engagement circumstances. Examples of matters may include an acknowledgement by the responsible party of:

- (a) the agreed terms of the assurance engagement;
- (b) their responsibility for:
  - (i) the preparation of the prospective financial information for the periods stated, in accordance with the applicable criteria that was selected and determined by them;
  - (ii) the selection of the best-estimate assumptions;
  - (iii) all other information included in the document, other than reports prepared by experts who have provided their consent for their inclusion;
  - (iv) the overall document;
  - (v) the establishment and maintenance of proper internal control related to financial reporting;
  - (vi) the maintenance of proper financial records and systems which facilitate the preparation of the financial information;
- (c) providing all information requested by the assurance practitioner;
- (d) any uncorrected misstatements are immaterial, either individually or in aggregate to the financial information;

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<sup>101</sup> The concepts and discussions on obtaining written representations relevant to an audit engagement are contained in Auditing Standard ASA 580 *Written Representations*, and may be helpful in determining the form and content of written representations applicable to an assurance engagement.

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and that all such misstatements have been previously advised to the assurance practitioner;

- (e) providing all material financial information, financial records and related data, and all other information relevant to financial information related to the engagement (for example fraud, errors, regulatory issues or communications);
- (f) confirming the going concern basis of preparation of the financial information is appropriate in the document; and
- (g) that there are no material changes to the financial information between the date of the assurance report and the relevant date.

A124. Oral or written representations made by the responsible party cannot replace other evidence the assurance practitioner could reasonably expect to be available. For example, relevant minutes of meetings of the Board of Directors, or a published statement by the Board of Directors acknowledging responsibility for the preparation and presentation of prospective financial information, may be considered appropriate sufficient evidence under the circumstances. To the extent the other evidence obtained is inconsistent with the responsible party's oral or written representations, the assurance practitioner should investigate and evaluate such inconsistencies, with a view to obtaining sufficient appropriate evidence. In such cases, additional procedures may be required in order to achieve this.

A125. If the responsible party does not provide such a letter, or refuses to provide it, the assurance practitioner needs to consider the implications of this on the assurance report. Having no written representation letter from the responsible party may result in a qualified conclusion or a disclaimer of conclusion in the assurance report on the basis of a limitation on the scope of the assurance engagement. The assurance practitioner may also include a restriction paragraph on the distribution of, or use of, the assurance report.

A126. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation of the prospective financial information in the document, when such evidence would ordinarily be available, constitutes a limitation on the scope of the assurance engagement, even if a written



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representation from the responsible party has been received by the assurance practitioner on the matter.

A127. Appendix 4 provides an illustrative written representation letter.

**Forming the Assurance Conclusion** (Ref: Para. 131-132)

A128. The assurance practitioner's evaluation of the sufficiency and appropriateness of the evidence obtained during the assurance engagement takes account of:

- (a) the source of the financial information (historical or non-historical) and what adjustments have been made to it;
- (b) the fact the planned assurance level on the prospective financial information is limited;
- (c) whether the best-estimate assumptions provide an objectively reasonable basis for the preparation of the prospective financial information;
- (d) the assurance practitioner's assessment of whether any uncorrected misstatements or adjustments are material, individually or in aggregate, to the prospective financial information;
- (e) whether the entity has complied with the recognition and measurements principles of the applicable financial reporting framework (which in Australia is ordinarily those contained in applicable Australian Accounting Standards);
- (f) whether the prospective financial information includes adequate disclosure of the significant recognition and measurement accounting policies selected and applied in its preparation; and
- (g) whether sufficient appropriate evidence has been obtained to support the assurance practitioner's conclusion.

**Preparing the Assurance Report** (Ref: Para. 133)

A129. The assurance report may be prepared solely in respect of a particular type of financial information (prospective financial information) or be a composite report where two or more of types of financial information are the subject of the assurance report (for

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example historical and prospective financial information).  
(Ref: Para. 133)

- A130. If the assurance practitioner is preparing a composite assurance report the assurance practitioner needs to ensure: (Ref: Para. 134)
- (a) that the different types of financial information are clearly identified in the document, and separately referred to in the assurance report; and
  - (b) the assurance report clearly identifies and segregates the work carried out, and type of assurance expressed, on the different types of financial information.

*Basic Elements of the Assurance Report* (Ref: Para. 135)

- A131. The assurance report on prospective financial information may contain a statement that the assurance practitioner's procedures were more limited than for a reasonable assurance engagement and consequently they do not enable the assurance practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement.
- A132. The assurance report cannot be dated earlier than the date on which the assurance practitioner obtained evidence on which the assurance practitioner's conclusion is based, including receipt of a written representation letter from the responsible party.
- A133. In respect of an assurance report that is being included in a public document prepared in accordance with the *Corporations Act 2001*, the assurance practitioner also needs to ensure that the assurance report is:
- (a) included in the public document;
  - (b) appropriately cross referenced and consistent with other information disclosed in the public document; and
  - (c) appropriately positioned in the public document in relation to the financial information on which the assurance practitioner provides a conclusion.<sup>102</sup>

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<sup>102</sup> See ASIC's RG 170.

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*Unmodified and Modified Conclusions*

Unmodified conclusions (Ref: Para. 137)

A134. Appendix 5 contains illustrative examples of unmodified conclusions in an assurance report.

Modified conclusions (Ref: Para. 138-139)

A135. When the assurance practitioner expresses a modified conclusion in the assurance report, the reasons for the modification should be properly described, with the effects appropriately quantified and disclosed in the assurance report.

A136. Appendix 5 contains illustrative examples of modified conclusions<sup>103</sup> in an assurance report.

A137. A qualified conclusion is expressed when:

- (a) the assurance practitioner concludes that misstatement, individual or in aggregate are material but not pervasive to the prospective financial information;
- (b) matters have come to the assurance practitioner's attention that cause the assurance practitioner to believe that the prospective financial information is not prepared, in all material respects, in accordance with the applicable criteria;
- (c) the assurance practitioner is unable to obtain sufficient appropriate evidence on which to base a conclusion, but concludes that the possible effects on the prospective financial information of undetected misstatements, if any could be material but not pervasive to the prospective financial information; or
- (d) the assurance practitioner determines there has been a material scope limitation regarding the possible adjustments to the prospective financial information that might have been determined to be necessary had the limitation not existed.

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<sup>103</sup> The concepts and discussions on modifications to the opinion relevant to an audit engagement are contained in Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*, and may be helpful in determining the nature, type and opinion wording of modifications applicable to an assurance engagement.

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A qualified conclusion is expressed as being “except for” the effects, or possible effects, of the matter to which the qualification relates.

- A138. An adverse conclusion is expressed when the assurance practitioner concludes (having obtained sufficient appropriate evidence) that misstatements, individually or in aggregate, are both material and pervasive to the prospective financial information. In these circumstances, the assurance practitioner ordinarily concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the prospective financial information. The form of the adverse conclusion is ordinarily that the prospective financial information is not prepared fairly in all material respects, in accordance with the applicable criteria. (Ref: Para. 60(a))
- A139. An disclaimer of conclusion is expressed when the assurance practitioner is unable to obtain sufficient appropriate evidence on which to base a conclusion, and concludes that the possible effects on the financial information of undetected misstatements, if any, could be both material and pervasive to the prospective financial information. (Ref: Para. 60(c))
- Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists (Ref: Para. 140)
- A140. When the assurance practitioner determines that a material uncertainty exists that casts significant doubt on the entity’s ability to continue as a going concern, the assurance practitioner considers the adequacy of disclosures made in the prospective financial information and/or the document.
- A141. If, in assurance practitioner’s professional judgement, the responsible party’s disclosure is considered adequate, in terms of both the description of the principal events or conditions that contribute to cast significant doubt on the entity’s going concern ability, as well as the fact that a material uncertainty exists related to the events or conditions and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business, then the auditor expresses an unmodified conclusion, with an emphasis of matter paragraph. The emphasis of matter paragraph is intended to highlight the existing of the material uncertainty and to draw attention to the responsible party’s disclosures.
- A142. If in the assurance practitioner’s professional judgement disclosure is inadequate, the assurance practitioner expresses a qualified or adverse conclusion.

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**Consent to the Inclusion of the Assurance Report in a Public Document**

(Ref: Para. 141-142)

- A143. For assurance reports in connection with a document prepared in accordance with the *Corporations Act 2001*, the assurance practitioner is required to consent to the form and context in which the assurance report is included in that public document.<sup>104</sup> Consequently, the assurance practitioner ordinarily reads all other information included in the public document to consider whether it contains any material inconsistencies or material misstatements of fact as compared to the prospective financial information.
- A144. There may be some circumstances where the assurance practitioner does not consider it appropriate to provide the consent. For example:
- (a) where there are material inconsistencies between the prospective financial information and other information which remain uncorrected by the responsible party;
  - (b) where there are material misstatements of fact between the prospective financial information and other information which remain uncorrected by the responsible party;
  - (c) where the assurance practitioner does not consider the assurance report will be used for the intended purpose.

**Documentation** (Ref: Para. 143)

- A145. Sufficient appropriate documentation<sup>105</sup> should include a record of the assurance practitioner's reasoning on all significant matters that required the exercise of professional judgement, together with the assurance practitioner's conclusions on the matters. In areas involving difficult questions of estimate, principle or judgement, the documentation should include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.
- A146. In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner ordinarily considers what would be necessary by another experienced assurance practitioner who has no previous experience

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<sup>104</sup> See Section 716 of the *Corporations Act 2001*.

<sup>105</sup> The concepts and discussions on documentation relevant to an audit engagement are contained in Auditing ASA 230 *Audit Documentation*, and may be helpful in determining appropriate documentation to be obtained in an assurance engagement.

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with the assurance engagement to provide an understanding of the work performed and the basis of the significant decisions taken. It is, however, neither necessary nor practicable to document every matter the assurance practitioner considers during the assurance engagement.

## **Proper Compilation of Pro Forma Financial Information**

### **Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. 144)

A147. The assurance practitioner should make it clear to the responsible party that the assurance engagement will not involve the assurance practitioner expressing a conclusion on:

- (a) the pro forma financial information or any financial information used as its source financial information;
- (b) the appropriateness of the stated basis of preparation of the pro forma financial information; or
- (c) whether the pro forma financial information has been prepared, in all material respects, in accordance with the recognition and measurement policies of the entity, or its applicable financial reporting framework.

**Agreeing on the Terms of the Assurance Engagement** (Ref: Para. 146)

A148. Ordinarily the assurance practitioner only provides limited assurance on the proper compilation of the pro forma financial information, however there is nothing in this ASAE to preclude the assurance practitioner from using professional judgement in conducting an assurance engagement with a view to expressing a reasonable assurance conclusion.

### **Planning the Assurance Engagement**

*Planning Activities* (Ref: Para. 147-148)

A149. In addition to the application and other explanatory material in paragraph A19, the following planning activities assist the assurance practitioner in the planning process:

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- (a) understanding the purpose of the assurance report, and the of the entities involved in the proper compilation process;
  - (i) The assurance practitioner may have all or part of the required understanding of the entity and any acquiree or divestee, and their respective environments, if the assurance practitioner has previously audited or reviewed their financial information.
- (b) understanding the nature of the event(s) or transaction(s) giving rise to the compilation of pro forma financial information including whether their nature is an:
  - (i) acquisition;
  - (ii) divestment; or
  - (iii) business combination;
- (c) understanding the nature of the source of the base financial information, including whether it:
  - (i) is sourced from more than one entity's financial information, for example:
    - ◆ an acquiree may be an incorporated entity or a separately identifiable unincorporated operation within another entity such as a division, branch or line of business; or
    - ◆ a divestee may be an incorporated entity such as a subsidiary or joint venture, or a separately identifiable unincorporated operation within the entity such as a division, branch or line of business; and
  - (ii) includes one or more single financial statements, such as a statement of financial position and a statement of comprehensive income; or
  - (iii) is summarised financial information from a financial report, for example, a statement of net assets;

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- (d) obtain an understanding of the compilation process of the pro forma financial information, which ordinarily includes:
  - (i) identifying the source of the base financial information to be used in the compilation, and extracting the base financial information from that source;
  - (ii) understanding how the responsible party has developed the applicable criteria, for example, based on practice in a particular industry;
  - (iii) identifying the appropriate pro forma adjustments, including, for example:
    - ◆ how the responsible party has obtained acquiree financial information in compiling the pro forma financial information;
    - ◆ the responsible party's approach and criteria for allocating key financial line items approach;
  - (iv) making pro forma adjustments to the unadjusted financial information for the purpose for which the pro forma financial information is presented;
  - (v) presenting the resulting pro forma financial information with accompanying disclosures, typically in columnar format consisting of (a) the base (unadjusted) financial information; (b) the pro forma adjustments; and (c) the resulting pro forma financial information;
- (e) assessing the responsible party's competence in compiling pro forma financial information, including the nature and extent of oversight by the responsible party of other entity personnel involved in the compilation of the pro forma financial information; and
- (f) understanding the responsible party's approach to identifying appropriate disclosures to support the pro forma financial information.



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Materiality Considerations (Ref: Para. 148)

A150. Materiality with regard to the proper compilation of the pro forma financial information does not depend on a single quantitative measure. Instead, it depends on the size and nature of the omission or inappropriate application of an element of the compilation, whether or not intentional. Judgement about these aspects of size and nature will, in turn, depend on such matters as:

- (a) the context of the underlying event(s) or transaction(s);
- (b) the purpose for which the pro forma financial information is being compiled; and
- (c) the related engagement circumstances.

The determining factor could be the size or the nature of the matter, or a combination of both.

**Performing the Engagement**

*Assurance Procedures*

**Audit or Review of Source of the Base Financial Information**

(Ref: Para. A150(a))

A151. If an audit or review report on the source has been issued by another assurance practitioner, the need by the assurance practitioner reporting under this ASAE for an understanding of the entity and its accounting and financial reporting practices is not diminished. In the circumstances, the assurance practitioner may need to consider whether the assurance practitioner can acquire sufficient knowledge of these matters to perform the procedures necessary to report under this ASAE.

A152. Considering the findings of the audit or review of the source of the base financial information, as not all modified audit opinions, review conclusions or Emphasis of Matter paragraphs with respect to either the source of the unadjusted financial information or the source of the acquiree or divestee financial information may necessarily affect the proper compilation of the pro forma financial information. For example, a qualified audit opinion may have been expressed on the entity's financial statements because of the non-disclosure of remuneration for those charged with governance as required by the applicable financial reporting framework. If this is the case and

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these financial statements are used as the source of the unadjusted financial information, such qualification may have no consequence on the proper compilation of pro forma net asset and income statements.

- A153. Where there is no audit or review report on the source, it is necessary for the assurance practitioner to perform procedures in relation to the appropriateness of that source. Factors that may affect the nature and extent of these procedures include, for example:
- (a) Whether the assurance practitioner has previously audited or reviewed the entity's historical financial information, and the assurance practitioner's knowledge of the entity from such engagement.
  - (b) Whether the entity's financial information is subject to periodic review by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.

Source of the Base Financial Information (Ref: Para. 149(b))

- A154. Procedures ordinarily include performing an assessment of factors that may affect the appropriateness of the source of the base financial information is appropriate. Such factors may include that the base financial information:
- (a) Is clearly identifiable.
  - (b) Represents a reasonable starting point for compiling the pro forma financial information in the context of the event(s) or transaction(s), including whether it is at an appropriate date or covers an appropriate period.
  - (c) Has been agreed or reconciled to reliable underlying accounting records.
  - (d) Includes all recorded transactions.
  - (e) Has been prepared in accordance with the entity's recognition and measurement accounting policies.
  - (f) Whether there have been any changes in accounting policies from the most recent audited or reviewed period and, if so, how such changes have been dealt with.

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- (g) Represents market custom and practice to use that type of financial information.
- (h) Considering the findings of the audit or review of the immediately preceding annual or interim financial information and, if applicable, the corresponding prior period financial information and:
  - (i) discussing any significant changes with the responsible party
  - (ii) evaluate whether these might indicate any issues with the preparation of the source.
- (i) The responsible party's assessment of the risk that the source of the base financial information may be materially misstated as a result of fraud.

A155. As the assurance practitioner is not reporting on the source of the base financial information, there is no requirement for the assurance practitioner to perform procedures to identify events after the date of the source that require adjustment of, or disclosure in, such source. Nevertheless, it is necessary for the assurance practitioner to consider whether any significant events subsequent to the date of the source of the unadjusted financial information have come to the assurance practitioner's attention that may require reference to, or disclosure in, the explanatory notes to the pro forma financial information to avoid the latter being misleading. Such consideration is based on performing the procedures under this ASAE or the assurance practitioner's knowledge of the entity and the engagement circumstances. For example, after the date of the source of the unadjusted financial information, the entity may have entered into a capital transaction involving the conversion of its convertible debt into equity, non-disclosure of which could result in the pro forma financial information being misleading.

Pro Forma Adjustments (Ref: Para. 149(c))

- A156. Pro Forma adjustments need to reflect the applicable criteria used by the responsible party in formatting the basis stated, and the assurance practitioner ordinarily performs the following procedures:
- (a) Inquiring of the entity's advisors regarding specific aspects of the event or transaction and related contracts and

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agreements that are relevant to the identification of appropriate adjustments.

- (b) Evaluating the reasonableness of the responsible party's approach to identifying the appropriate pro forma adjustments, for example, the method used in identifying appropriate allocations of income, overheads, assets and liabilities among the relevant businesses.
- (c) Assessment of whether the pro forma adjustments are directly attributable to the event(s) or transaction(s) to avoid the pro forma financial information reflecting matters that do not arise solely as a result of the event or that are not an integral part of the transaction(s). Directly attributable adjustments exclude those that relate to future events or are dependent on actions to be taken once the transaction has been completed, even if such actions are key to the entity entering into the transaction (for example, closing of redundant production sites after an acquisition).
- (d) Factually supportable in order to provide a reliable basis for the pro forma financial information. While the nature of the supporting facts will vary with the circumstances, they are nevertheless capable of objective determination. Sources of factual support for the pro forma adjustments include, for example:
  - (i) Purchase and sale agreements.
  - (ii) Financing documents for the event or transaction, such as debt agreements.
  - (iii) Independent valuation reports.
  - (iv) Other documents relating to the event or transaction.
  - (v) Published financial statements.
  - (vi) Other financial information disclosed in the document.
  - (vii) Relevant legal or regulatory actions, such as in the area of taxation.

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- (viii) Employment agreements.
- (ix) Actions of those charged with governance.

A157. Factual support for any acquire or divestee financial information included in the pro forma adjustments:

- (a) Consider if the acquires financial information used as one of the sources of the base financial information has been audited or reviewed for the purposes of the document and consider findings:
  - (i) in such circumstances, the acquiree financial information will be factually supportable; or
  - (ii) if the base financial information has not been audited or reviewed, additional procedures may need to be performed, for example:
    - ◆ Inquiring of the acquiree’s management about:
      - ◇ The process by which the source has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled.
      - ◇ Whether all transactions have been recorded.
      - ◇ Whether the source has been prepared in accordance with the acquiree’s accounting policies.
      - ◇ Whether there have been any changes in accounting policies from the most recent audited or reviewed period and, if so, how such changes have been dealt with.
      - ◇ The assessment of the risk by the acquiree’s management that the source may be materially misstated as a result of fraud.
      - ◇ The effect of changes in the acquiree’s business activities and operations.

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- (b) An evaluation of whether the related pro forma adjustments give appropriate effect to that identified basis.

Basis Stated (Ref: Para. 149(e))

A158. Obtain evidence whether the responsible party has an appropriate basis for presenting the significant effects directly attributable to the underlying event(s) or transaction(s):

- (a) Performing procedures to corroborate some or all the information provided by the acquiree's management in response to the assurance practitioner's enquiries, such as when the responses appear inconsistent with the assurance practitioner's understanding of the acquiree or the engagement circumstances.
- (b) Consistent with the entity's applicable financial reporting framework and its recognition and measurement accounting policies under that framework. In the context of a business combination, for example, the proper compilation of the pro forma financial information involves consideration of such matters as:
  - (i) whether differences exist between the acquiree's accounting policies and those of the entity; and
  - (ii) whether accounting policies for transactions undertaken by the acquiree which the entity has not previously entered into are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into account the entity's particular circumstances.
- (c) Review any accompanying explanatory notes prepared by the responsible party to describe how the applicable criteria have been applied in illustrating the effects of the particular event(s) or transaction(s). Such notes may include, for example, the date or period for which the pro forma financial information is being presented.
- (d) A consideration of the appropriateness of the entity's recognition and measurement accounting policies may also be necessary in some circumstances. For example, as part of the event or transaction, the entity may propose to issue

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complex financial instruments for the first time. If this is the case, it may be necessary to consider:

- (i) whether the responsible party has adopted appropriate recognition and measurement accounting policies to account for such financial instruments under its applicable financial reporting framework; and
- (ii) whether it has appropriately applied such policies in the compilation of the pro forma financial information.

Pro Forma Financial Information (Ref: Para. 149(f))

A159. Obtain evidence whether the responsible party has prepared and presented the pro forma financial information on the basis stated:

- (a) Appropriate disclosures accompanying the pro forma financial information have been made including of the:
  - (i) the nature and purpose of the pro forma financial information, including the nature of the event or transaction, and the date as of, or the period for, which the responsible party has compiled the pro forma financial information;
  - (ii) the source of the unadjusted financial information, and whether or not an audit or review report on such a source has been published;
  - (iii) The pro forma adjustments, including a description and explanation of each adjustment. This includes, in the case of acquiree or divestee financial information, the source of such information and whether or not an audit or review report on such a source has been published;
  - (iv) A description of the applicable criteria in accordance with which the compilation of the pro forma financial information has been performed;
- (b) A statement to the effect that the pro forma financial information has been compiled for illustrative purposes only and that, because of its nature, it does not represent the

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entity's actual financial position, financial performance, or cash flows.

- (c) Different presentations of pro forma financial information may be included in the document depending on the nature of the event(s) or transaction(s) and how the responsible party intends to illustrate the impact of such event or transaction on the base financial information of the entity.
  - (i) For example, the entity may acquire a number of businesses prior to an initial public offering. In such circumstances, the responsible party may choose to present a pro forma net asset statement to illustrate the impact of the acquisitions on the entity's financial position and key ratios such as debt to equity as if the acquired businesses had been combined with the entity at an earlier date.
  - (ii) The responsible party may also choose to present a pro forma income statement to illustrate what the results of operations might have been for the period ended on that date. In such cases, the nature of the pro forma financial information may be described by titles such as "Statement of Pro Forma Net Assets as at 30 June 20X1" and "Pro Forma Income Statement for the Year Ended 30 June 20X1".

*Adjustments Identified by the Assurance Practitioner* (Ref: Para. 150)

A160. The pro forma financial information may not be considered properly compiled when there is evidence of, for example:

- (a) Use of an inappropriate source for the unadjusted financial information.
- (b) Incorrect extraction of the unadjusted financial information from an appropriate source.
- (c) In relation to adjustments, the misapplication of accounting policies, or the failure of the adjustments, to be consistent with the entity's accounting policies.
- (d) Failure to make an adjustment required by the applicable criteria.



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- (e) Making an adjustment that is not in accordance with the applicable criteria.
- (f) A mathematical or clerical mistake in the calculations within the pro forma financial information.
- (g) Inadequate, incorrect or omitted disclosures.

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

(Ref: Para. 151)

A161. Where it is not practicable for the assurance practitioner to obtain evidence to conclude that the pro forma financial information of an acquiree is factually supportable, the assurance practitioner may need to discuss the matter with the entity's responsible party and consider the implications for the assurance practitioner's report.

**Written Representations** (Ref: Para. 152)

A162. In some circumstances, the types of transactions involved may require the responsible party to use accounting policies for the pro forma adjustments that the entity has not previously applied as it had no comparable transactions. In such a case, the assurance practitioner may request the responsible party to expand the written representations to include confirmation that such accounting policies constitute the entity's adopted policies for such types of transactions.

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**Conformity with Australian Standards on Assurance  
Engagements**

This Auditing Standard on Assurance Engagements has been made for Australian legislative purposes and accordingly there is no equivalent Australian Standard on Assurance Engagements (ISAE) issued by the Australian Auditing and Assurance Standards Board (AUASB), an independent standard-setting board of the Australian Federation of Accountants (IFAC).

*ISAE 3420 Assurance Reports on the Proper Compilation of Pro Forma Financial Information Included in a Prospectus*

Compliance with this Standard on Assurance Engagements does not affect compliance with the ISAEs.

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**Appendix 1**

TYPES OF FINANCIAL INFORMATION

Types of Financial Information							
	Historical	Pro Forma Historical		Pro Forma Forecast		Prospective <sup>(1)</sup>	
Type of Conclusion			Aggregated	Reasonably objective	Aggregated	Forecast	Combination of reasonably objective & immaterial hypothetical assumptions
Limited assurance	✓	✓	✓	✓	✓	✓	✓ <sup>(2)</sup>
Reasonable assurance	✓	✗	✓	✗	✓	✗	✗

Notes:

- (1) For assurance engagement involving prospective financial information that are conducted in accordance with the *Corporations Act 2001*, the assurance practitioner needs to consider whether the basis of the information includes the use of material hypothetical assumptions. In such cases, the financial information is considered to be without reasonable grounds and is therefore not permitted to be disclosed in public documents.
- (2) Prospective financial information that is proposed to be included in a public document must have reasonable grounds for its inclusion.

## **Appendix 2**

(Ref: Para. A13)

### **Illustration of an Engagement letter**

The following illustrative letter is not authoritative, but is intended as a guide that may be used in conjunction with considerations outlined in this ASAE. It will need to be varied according to individual requirement and circumstances. It may be appropriate to see legal advice that any proposed letter is suitable.

**Engagement Circumstances include the following:**

- **ABC Company proposes a takeover of XYZ Target company, but does not have access to the Target’s financial information.**
- **Investigating Accountant’s Report undertaken under the Corporations Act 2001.**
- **Limited assurance conclusion.**

#### **Introduction**

This letter confirms our understanding of the terms of engagement requiring our services as Investigating Accountant in respect of the historical financial information, pro forma historical and forecast financial information to be included in the proposed bidder statement of ABC Company. Limited (“ABC Company”) to be issued in connection with [describe here the proposed transaction for example. the proposed acquisition of XYZ Target Limited (“Target”)]. The purpose of this letter is to outline the role and approach of [firm name] and the reports we will deliver.

#### **Scope of our work**

A. *Overview*

Our firm will:

- perform procedures, described below, to enable us to report on ABC Company’s historical balance sheet as at 30 June 20X1, income statements for the years ended 30 June 20XX and 20X1, and statements of cash flows for the years ended 30 June 20XX and 20X1 (the “Historical Financial Information”);

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- perform procedures, described below, to enable us to report on the aggregation of ABC Company’s pro forma historical balance sheet, shown with adjustments for the effect of transactions as at 30 June 20XX, income statements for the years ended 30 June 20XX and 20X1 and statements of cash flows for the years ended 30 June 20XX and 20X1 (the “Pro Forma Historical Financial Information”);
- perform procedures, described below, to enable us to report on ABC Company’s forecast income statement for the year ending 30 June 20XX (“the ABC Company Forecast”); and
- perform procedures, described below, to enable us to report on the aggregation of ABC Company’s forecast income statement for the combined ABC Company/XYZ Target group for the year ending 30 June 20XX (“the Aggregated Forecast”).

We will conduct our engagement in accordance with ASAE 34XX *Assurance Engagements involving Corporate Fundraisings and Prospective Financial Information*.

***B. Review of Historical Financial Information***

We will review the Historical Financial Information of ABC Company, comprising the Statements of Financial Position as at 30 June 20X1, Statements of Financial Performance and Statements of Cash Flows for the years ended 30 June 20XX and 20X1, in order to state whether, on the basis of the procedures described, anything has come to our attention that would cause us to believe that the Historical Financial Information is not prepared, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and the accounting policies adopted by ABC Company and disclosed in the proposed bidder statement (the “applicable criteria”).

The review procedures will be limited primarily to:

- analytical procedures on the audited/unaudited Statements of Financial Position of ABC Company as at 30 June 20X1 and Statements of Financial Performance and Statements of Cash Flows of ABC Company for the years ended 30 June 20XX and 20X1;
- a comparison of consistency in the application of recognition and measurement principles in Australian Accounting Standards, and the accounting policies adopted by ABC Company in the preparation of

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the historical financial information, and disclosed in the proposed bidder statement;

- a review of ABC Company's work papers, accounting records and other documents; and
- enquiry of directors, management, and others in relation to the Historical Financial Information.

The above review procedures will not provide all the evidence that would be required in an audit, thus the level of assurance provided will be less than given in an audit. We will not perform an audit and, accordingly, we will not express an audit opinion.

*C. Review of the Aggregation of Pro Forma Historical Financial Information*

We will review the aggregation of Pro Forma Historical Financial Information of ABC Company in order to state whether, on the basis of the procedures described, anything has come to our attention that would cause us to believe that the Pro Forma Historical Financial Information is not compiled on the basis of:

- (a) the Historical Financial Information of ABC Company extracted from the audited financial statements of ABC Company for the years ended 30 June 20XX and 20X1;
- (b) historical financial information of XYZ Target extracted from the audited financial statements of XYZ Target for the years ended 30 June 20XX and 20X1; and
- (c) the pro forma transactions and/or adjustments described in section [X] of the Bidder Statement.
- (d) The review procedures will be limited primarily to:
  - consideration of work papers, accounting records and other documents, including those dealing with the extraction of Historical Financial Information of ABC Company from its audited financial statements for the years ended 30 June 20XX and 20X1, and those dealing with the extraction of historical financial information of XYZ Target from its audited financial statements for the years ended 30 June 20XX and 20X1;

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- consideration of the pro forma transactions and/or adjustments described in section [X] of the Bidder Statement;
- enquiry of directors, management, personnel and advisors;
- the performance of analytical procedures applied to the pro forma financial data;
- a review of work papers, accounting records and other documents of ABC Company and its auditors (where the assurance practitioner is not the auditor);
- a review of accounting policies for consistency of application and identification of any adjustments to align the accounting policies to those of the Company.

The procedures will not provide all the evidence that would be required in an audit, thus, the level of assurance provided will be less than given in an audit. We will not perform an audit and, accordingly, we will not express an audit opinion.

We will not have sufficient access to [XYZ Target] to be able to audit or review the historical financial information extracted from the financial statements of XYZ Target for the years ended 30 June 20XX and 20X1, and accordingly, we will not express any opinion, or make any statement of negative assurance, as to whether the Pro Forma Historical Financial Information is prepared, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and accounting policies adopted by ABC Company disclosed in section [X] of the Bidder Statement (the “applicable criteria”).

*D. Review of ABC Company’s Forecast*

We will review the ABC Company Forecast and the directors’ best-estimate assumptions underlying the ABC Company Forecast in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe, in all material respects that:

- the directors’ best-estimate assumptions, when taken as a whole, do not provide objectively reasonable grounds for the preparation of the ABC Company Forecast;
- the ABC Company Forecast is not properly prepared on the basis of the directors’ best-estimate assumptions or prepared in accordance

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with the accounting policies adopted by ABC Company and disclosed in the proposed bidder statement (the “applicable criteria”); and

- The ABC Company Forecast itself is not unreasonable.
- The review procedures will be limited primarily to enquiry, comparison, and other such analytical review procedures we consider necessary.
- Our review of the Forecast Financial Information of ABC Company will be limited primarily to:
  - comparison and analytical review procedures;
  - discussions with management and Directors of ABC Company of the factors considered in determining their assumptions; and
  - examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the Forecast Financial Information and the evaluation of Accounting Policies used in the Forecast Financial Information.

We will require written representations and confirmations from the Directors and management to be provided to ensure the assumptions applied in the preparation of the Forecast Financial Information are consistent with the Directors’ knowledge and expectation.

Our review of the ABC Company Forecast will be substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit. We will not perform an audit and we will not express an audit opinion on the ABC Company Forecast or the directors’ best-estimate assumptions. Our Firm will not express any opinion as to whether any forecast or projections will be achieved, or warrant or guarantee any statements as to the future prospects of ABC Company.

*E. Review of Compiled Aggregated Forecast*

We will review the aggregation of the Forecast of the combined ABC Company and XYZ Target in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Aggregated Forecast is not compiled on the basis of:

- the ABC Company Forecast;



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- [publicly] available forecast information of XYZ Target; and
- the directors' assumptions underlying the Aggregated Forecast.

The review procedures will be limited primarily to enquiry, comparison, and other such analytical review procedures we consider necessary.

Our review of the aggregation of the Aggregated Forecast will be substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit. We will not perform an audit and we will not express an audit opinion on the aggregation of the Aggregated Forecast. We will not express any opinion, or make any statement of negative assurance, in relation to the publicly available forecast information of XYZ Target or the directors' assumptions underlying the Aggregated Forecast, and we will make this clear in our Investigating Accountant's Report.<sup>106</sup>

**Reporting**

As a result of the above work procedures we intend to issue the Investigating Accountant's Report to the directors of ABC Company on the Historical Financial Information, the compiled Pro Forma Historical Financial Information, the ABC Company Forecast and the compiled Aggregated Forecast for inclusion in the proposed bidder statement.

Our Investigating Accountant's Report is to be provided expressly for the benefit of ABC Company, and for inclusion in the bidder statement.

**Reliance on information**

The directors of ABC Company are responsible for:

- the content of the proposed bidder statement, other than the content of our Investigating Accountant's Report, and any other experts' reports;
- issuing the proposed bidder statement;
- the preparation and presentation of the Historical Financial Information, the Pro Forma Historical Financial Information, the ABC Company Forecast and the Aggregated Forecast included in the proposed bidder statement;

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<sup>106</sup> If sufficient access is granted to the XYZ Target's forecast and assumptions underlying the forecast, the wording can be amended.

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- the directors' best-estimate assumptions on which the ABC Company Forecast is based;
- the directors' assumptions on which the Aggregated Forecast is based; and
- the inclusion in the proposed bidder statement of information regarding the sensitivity of the ABC Company Forecast and the Aggregated Forecast to changes in key assumptions.

We do not assume any liability for information or statements included in the bidder statement other than our Investigating Accountant's Report.

We will require written representation from ABC Company that all material information relevant to the Historical Financial Information, Pro Forma Historical Financial Information, ABC Company Forecast and Aggregated Forecast within your possession has been provided prior to the finalisation of our reports, and that no material changes have occurred between the date of our reports and the date of lodgement of the proposed bidder statement with the Australian Securities and Investments Commission ("ASIC") which could affect our findings.

**Consents**

Prior to the issue of the proposed bidder statement, we will review the document in its entirety, to consider whether we consent to the form and context in which we are named as Investigating Accountant, and to consider whether we consent to the inclusion of our Investigating Accountant's Report in the form and context in which it is included. Our consent will be issued on the letterhead of [firm name] and should then be quoted in the proposed bidder statement.

The consent relates to the use of our name and report in the context of the whole proposed bidder statement. Our name or report, or any extract, may not be included in any analysts' briefings, in any display on an internet site or in any other media without our prior consent. [Firm name] will be giving the consent pursuant to section 636(3) of the *Corporations Act 2001* but will not otherwise be authorising or causing the issue of the bidder statement.

In the event of any misuse of our name or our reports, [firm name] reserves the right to withdraw its consent by written notification to ABC Company at its registered office and to ASIC.

[insert other information such as fee arrangements, billings and other specific terms and conditions, as appropriate.]

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**Acceptance of Engagement Terms**

We look forward to working closely with the directors of ABC Company in relation to this important assignment.

Please sign and return the attached copy of this engagement letter to indicate your acknowledgement of, and agreement with the terms and conditions detailed in this engagement letter, including our respective responsibilities. If you wish to discuss any aspect of this letter, please do not hesitate to contact me.

Yours Faithfully

[Firm name]

[Name of partner]

Partner

Client Acceptance

I have read and understood the terms and conditions of this letter and the attached Appendix 1 and I agree to and accept them for and on behalf of ABC Company, by whom I am duly authorised:

Signature .....

Name .....

Position .....

## **Appendix 3**

(Ref: Para. A19(i))

### **Materiality Considerations**

The following quantitative and qualitative materiality factors may be useful in determining the appropriate materiality level for an assurance engagement on a corporate fundraising.

#### **Quantitative Factors**

The assurance practitioner ordinarily uses benchmark(s) appropriate in the entity's circumstances for a quantitative evaluation of the financial information. The benchmark(s) may relate to the total financial information (for example, a statement of financial position), or to certain elements, accounts or transactions included in the financial information (for example, total revenues from sale of the entity's major product). Some factors that the assurance practitioner may consider in determining the appropriate benchmark include:

- The elements of the financial information included in the public document (for example, a pro forma statement of financial position may only include major asset account classifications).
- Whether there are certain accounts or balances included in the financial information on which the intended users of the public document are likely to focus their attention (for example, net assets, total revenue, or net profit after tax).
- The nature of the entity, where the entity is in its life cycle, and the industry and economic environment in which the entity operates.
- The entity's ownership structure and the way it finances its operations (for example, if the entity primarily funds its projects from borrowings, intended users may focus on the entity's debt balances relating to projects in progress).
- The relative volatility of the benchmark.
- A certain percentage is ordinarily then applied to the selected benchmark as a starting point for determining materiality thresholds.

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- The assurance practitioner exercises professional judgement when determining the percentage to be applied to the benchmark.

**Qualitative Factors**

Some of the qualitative factors that may affect the assurance practitioner's consideration of materiality include:

- Law, regulation, or changes in the applicable financial reporting framework that may impact the financial information included in the public document (for example, issue of a new accounting standard applicable to the entity's recognition and/or measurement of revenues).
- Matters specific to the industry in which the entity operates that may be relevant to the financial information included in the public document (for example, recent developments in the entity's industry that may be relevant to the entity's measurement and recognition of revenue streams).
- Whether the attention of intended users may be focused on particular aspects of the entity's operations (for example, the extent of research and development activities of a pharmaceutical company may be correlated with research and development costs).
- Whether there are, or have recently been, material related party or director related transactions with the entity.

## **Appendix 4**

(Ref: Para. A47)

### **Illustrative Representation Letter**

The following illustrative letter includes example written representations that can be tailored for specific engagement circumstances.

**Engagement Circumstances include the following:**

- **Engagement in connection with the issue of a prospectus by ABC Company.**
- **Assurance Engagement terms are to express a limited assurance conclusion in an Investigating Accountant's Report covering Historical Financial Information, Pro Forma Financial Information and Prospective Financial Information (best-estimate forecast).**

Firm Name

Address

[Date]

Dear Sirs

#### **Letter of Representation**

This letter is provided in connection with your engagement to examine and report as Investigating Accountant on the financial information included in the [public document] of ABC Company. Limited ("ABC Company") to be dated on or around 31 October 20XX ("Prospectus"), in accordance with the terms and conditions contained in your engagement letter dated [insert date]. Expressions defined in the Prospectus have the same meaning in this letter.

#### **General Representations**

We acknowledge and accept the conditions set out in your engagement letter dated [insert date] as being applicable to your examination of the historical, pro forma historical and forecast financial information (collectively referred to as "the financial information") for the years ended 30 June 20XX and 20X1 respectively to be included in the prospectus.

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We acknowledge that the statements of limited assurance that you provide to the directors of ABC Company will be based on the examination of the financial information conducted in accordance with Standard on Assurance engagement ASAE 34XX *Assurance Engagements involving Corporate Fundraisings and Prospective Financial Information*. We understand that the examination was a review of the financial information, and was limited primarily to enquiries of ABC Company personnel and analytical review procedures applied to the financial information and thus provides less assurance than an audit. You have not performed an audit and accordingly you do not express an audit opinion. [Note that this paragraph will need to be amended if the engagement involves the provision of reasonable assurance in relation to any of the financial information.]

The purpose of your review is to express an opinion as to whether anything comes to your attention that causes you to believe that the financial information in the prospectus is not prepared in all material respects in accordance with the applicable criteria as disclosed in section [X] of the prospectus.

We acknowledge that we are responsible for providing, and have provided, [Firm Name] with all the relevant information required in the performance of the assurance engagement and the preparation of the Investigating Accountant's Report for ABC Company and its directors.

We acknowledge our responsibility for the preparation of the prospectus, including the preparation and presentation of historical financial information, pro forma historical and forecast financial information contained therein and all other information that is not subject to your engagement.

We acknowledge our responsibility for disclosing in the prospectus all information required by the *Corporations Act 2001* (the Act).

**Historical financial information and Pro Forma Historical Financial Information**

With respect to the historical financial information and pro forma historical financial information, we acknowledge our responsibility for the preparation and presentation of the financial information on which the Investigating Accountant's Report is based; being the financial statements of ABC Company for the years ended 30 June 20XX and 20X1 respectively. These financial statements include the Balance Sheet, Profit and Loss Statement and Statement of Cash flows, and related notes.

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In the performance of the assurance engagement, [Firm Name] has been entitled to rely on the information provided by ABC Company and to assume that the information provided is, to the best knowledge and belief of management and the directors, accurate and, except where otherwise indicated, complete.

In connection with your review, we confirm, to the best of our knowledge and belief, the following:

- ABC Company's historical and pro forma historical financial information, included in the prospectus, has been prepared on a going concern basis. Having considered the circumstances likely to affect ABC Company during the next 12 months, and the circumstances that we know will arise thereafter, we are satisfied that the going concern basis of preparing the historical and pro forma historical financial information is appropriate;
- ABC Company's historical financial information and pro forma historical financial information, included in the prospectus have been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and the accounting policies adopted by ABC Company disclosed in section [X] of the prospectus.
- All material financial information, financial records, related data and other information relevant to the historical financial information and pro forma historical financial information within the possession of ABC Company have been provided to [Firm Name] prior to the finalisation of the Investigating Accountant's Report and no material changes have occurred between the date of that report and the date of lodgement of the prospectus with the Australian Securities and Investments Commission ("ASIC") .
- The records maintained by ABC Company during the financial periods under examination were adequate for the preparation of the historical and pro forma historical financial information.
- All material transactions have been properly recorded in the accounting records underlying the historical and pro forma historical financial information.
- We are responsible for, and have established and maintained, an adequate internal control structure to facilitate the preparation of reliable financial information. We acknowledge our responsibility for



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the implementation and operation of accounting and internal controls systems that are designed to prevent and detect fraud and error.

- There has been no fraud or suspected fraud involving any member of management or employee with a significant role in monitoring or implementing ABC Company's system of internal controls, or any other employee, that could have had a material effect on the historical or pro forma historical financial information.
- Other than detailed in the [public document], there have been no violations, or possible violations, of laws, regulations or contractual agreements, the effects of which should be considered as the basis for recording a liability or for disclosure in the prospectus.
- Other than detailed in the prospectus, there have been no communications from governmental or other regulatory authorities concerning non-compliance with, or deficiencies in, financial reporting practices that could have an impact on the historical or pro forma historical financial information.
- Other than detailed in the prospectus, there have been no communications from governmental or other regulatory authorities concerning non-compliance with, or deficiencies in, the group's adherence to relevant legislation. ABC Company has put in place appropriate procedures to ensure compliance with such legislation and the procedures have been applied throughout the financial periods under review.
- Adequate financial records have been maintained throughout the financial periods under review including records and registers as required by the *Corporations Act 2001* and other legislation.
- Other than detailed in the prospectus, there have been no changes in accounting policies, or the application of accounting policies, that would have a material effect on the historical or pro forma historical financial information. The accounting policies have been consistently applied in the preparation of the historical and pro forma historical financial information.
- There have been no changes to, or introduction of new, information systems during the financial periods under review that could adversely impact the basic completeness and accuracy of ABC Company's information systems and underlying data.

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- We believe the uncorrected misstatements summarised in [Appendix 1] are immaterial, both individually and in aggregate, to the historical and pro forma historical financial information.
- We confirm our belief that there are no uncorrected misstatements that are material, both individually and in aggregate, to any of the financial information under review.
- To the best of our knowledge and believe all material risks that may impact on the business have been adequately disclosed in the prospectus and considered in relation to their impact on the historical and pro forma historical financial information.
- Other than those already adjusted for, and/or disclosed, there have been no matters or events that have arisen, or been discovered, subsequent to the preparation of the historical and pro forma historical financial information that would require adjustment to that historical and pro forma historical financial information or disclosure in the prospectus.
- [Include any other matters that the assurance practitioner considers necessary]

**Directors' Forecast**

With respect to the directors' forecast prepared in respect of the financial period 30 June 20XX to 20 June 20X2, we acknowledge our responsibility for the preparation and presentation of that information, the best-estimate assumptions adopted, compliance with ABC Company's accounting policies, which are consistent with the requirements of Australian Accounting Standards, and the intended use of the information.

In the performance of the assurance engagement, [Firm Name] has been entitled to rely on the information provided by ABC Company and to assume that the information provided is, to the best knowledge and belief of management and the directors of ABC Company, accurate and, except where otherwise indicated, complete.

In connection with your review, we confirm, to the best of our knowledge and belief, the following:

- ABC Company's forecast financial information, included in the [public document], has been prepared on a going concern basis. Having considered the circumstances likely to affect ABC Company during the forecast period, and the circumstances that we know will

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arise thereafter, we are satisfied that the going concern basis of preparing the forecast and pro forma forecast financial information is appropriate.

- All material financial information, records and related data relevant to the directors' forecast within the possession of ABC Company have been provided to [Firm Name] prior to the finalisation of the Investigating Accountant's Report and no material changes have occurred between the date of that report and the date of lodgement of the prospectus with ASIC.
- All forecast events and/or transactions have been properly recorded in the directors' forecast financial information;
- In preparing the directors' forecast, ABC Company has complied with the recognition and measurement principles in Australian Accounting Standards and other mandatory professional reporting requirements in Australia applicable as at the date of the Investigating Accountant's Report.
- The assumptions disclosed in the prospectus have been agreed by the ABC Company's board of directors and, taken as a whole, provide reasonable grounds for the preparation of the directors' forecast.
- The assumptions underlying the directors' forecast are reasonable, supportable and consistent between themselves and with ABC Company's strategic plans, and have been consistently applied.
- ABC Company's forecast financial information has been prepared using the directors' best-estimate assumptions, based on present circumstances, as to both the most likely set of economic, operating, developmental, and trading conditions and the course of action ABC Company is most likely to take. Accordingly, the ABC Company's forecast financial information is appropriately called a forecast.
- The assumptions are consistent with the actual year to date results for the [X] months ended 30 June 20XX.
- During your review we have made available to you all records and information that was available to us at the time and from which we have based our financial model.
- There will not be any deficiencies or encumbrances attaching to the title of ABC Company's assets during the period covered by the directors' forecast, other than those already reflected in the prospectus.

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- All liabilities which will arise out of the activities of ABC Company have been included in the directors' forecast.
- The accounting policies adopted in preparing the directors' forecast for the year ending 30 June 20XX are those that are expected to be used for reporting historical financial information for the corresponding period.
- All material transactions have been properly included in the directors' forecast.
- No event(s) have occurred to the time of signing this letter that would necessitate adjustment to the directors' forecast, or disclosure in the prospectus, which we have not brought to your attention.
- ABC Company has no plans or intentions that could materially affect the book value or classification of assets or liabilities during the period of the directors' forecast that are not already reflected therein.
- The ABC Company's board of directors is not aware of any breach or non-compliance with the terms of any contractual arrangements, however caused, that could initiate claims against ABC Company, and which would have a material effect on the directors' forecast.

[Include any other matters that the assurance practitioner considers necessary]

**Conclusion**

This representation is provided to [Firm Name], [its Directors and employees], in connection with the prospectus dated 30 June 20XX to be issued by ABC Company.

Yours faithfully

ABC Company Limited

Name

Director

## **Appendix 5**

(Ref: Para. A55 and 56)

### **Illustrations of Assurance Reports**

The following illustrations incorporate the requirements of this ASAE. However, they are not intended to suggest standard wording for circumstances relating to all engagements.

- Illustration 1: Investigating Accountant's Report on Historical and Pro Forma Historical Financial Information included in a prospectus, with an unmodified limited assurance conclusion
- Illustration 2: Investigating Accountant's Report on Historical Financial Information included in a public document, with an unmodified reasonable assurance conclusion
- Illustration 3: Investigating Accountant's Report on Historical and Pro Forma Historical Financial Information included in a public document, with a modified limited assurance conclusion (limitation of scope)
- Illustration 4: Investigating Accountant's Report on Pro Forma Forecast Financial Information included in a public document, with an unmodified limited assurance conclusion
- Illustration 5: Investigating Accountant's Report on prospective financial information, in the form of a Forecast included in a public document, with an unmodified limited assurance conclusion
- Illustration 6: Investigating Accountant's Report on compiled financial information, in the form of Pro Forma Financial Information, included in a public document, with an unmodified limited assurance conclusion
- Illustration 7: Private Report on the examination of prospective financial information, in the form of a forecast, with an unmodified limited assurance conclusion

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**Illustration 1: Investigating Accountant’s Report on historical and pro forma historical financial information with an unmodified limited assurance conclusion included in a prospectus**

[Date]<sup>107</sup>

The Directors

ABC Company Limited

[Address]

Dear Directors<sup>108</sup>

**Investigating Accountant’s Report on Historical and Pro Forma Historical Financial Information**

As agreed in our engagement letter dated [XXXX], we have prepared this Investigating Accountant’s Report on historical financial information and pro forma historical financial information of ABC Company Limited (“ABC Company”) for inclusion in the prospectus dated [insert date] relating to the issue of [X] ordinary shares in ABC Company.

Expressions or terms defined in the prospectus have the same meaning in this report.

**Background**

[Insert relevant background information to ABC Company and/or the prospectus]

The nature of this report is such that it can only be issued by an entity, which holds an AFSL under the Corporation Act 2001. [Firm name] holds the appropriate AFSL.

**Scope**

You have requested [Firm Name] to prepare a report for the review of the following financial information included in the prospectus:

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<sup>107</sup> The date of both the hard copy and electronic version of the report should be the same. The assurance practitioner may provide the electronic version of the report in Adobe Acrobat® PDF format, where possible, to ensure that the electronic version of the report is identical to the hard copy of the report. See ASIC’s RG 107 *Electronic Prospectuses*.

<sup>108</sup> Or other title as appropriate in the circumstances of the engagement.

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- (a) the [adjusted] historical statement of comprehensive income of ABC Company for the [year(s)/period(s)] ended [insert date]; and
- (b) the [adjusted] historical statement of financial position as at [insert date];

Collectively referred to as “the Historical Financial Information”,  
and

- (c) pro forma historical statement of financial position as at [insert date] (“the Pro Forma Historical Financial Information”) which assumes completion of the proposed transactions disclosed in Section [X] of the prospectus (“the Pro Forma Transactions”).

Due to its nature, the pro forma financial information does not represent the company’s actual [financial position], [financial performance], [or cash flows].

[Insert any other information relating to the underlying transaction(s), which is deemed relevant.]

**Review of Historical Financial Information**

The historical financial information set out in Section [X] of the prospectus has been extracted from the financial report of ABC Company for the year(s) ended [insert date], which was audited by [Firm Name] in accordance with the Australian Auditing Standards. [Firm Name] issued a [modified/unmodified] audit opinion on the financial report.

The Directors of ABC Company are responsible for the preparation of the historical financial information, [including determination of adjustments made to the historical financial information].<sup>109</sup>

The historical financial information is presented in the prospectus in an abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to year-end financial reports prepared in accordance with the *Corporations Act 2001*.

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<sup>109</sup> Insert the reasons for the adjustments made on the historical financial information; for example, “*The adjustments were considered necessary by the Directors to present the historical financial information on a basis consistent with the new accounting policies adopted by ABC Company in the year ended [insert date]*”.

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We have conducted our review of the historical financial information in accordance with the Standard on Assurance engagement ASAE 34XX *Assurance Engagements involving Corporate Fundraisings and Prospective Financial Information*. We reviewed the Historical Financial Information in order to state whether anything has come to our attention, which causes us to believe that the Historical Financial Information is not presented fairly, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and accounting policies adopted by ABC Company, as disclosed in Section [X] of the prospectus.

We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- analytical procedures on the pro forma historical financial information of ABC Company;
- a review of ABC Company's work papers, accounting records and other documents;
- a review of the adjustments made to the historical financial information, as described in Section [X] of the prospectus [if applicable];
- a comparison of consistency in application of the recognition and measurement principles in Australian Accounting Standards, and the accounting policies adopted by ABC Company as disclosed in Section [X] of the prospectus; 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.

**Review of Pro Forma Historical Financial Information**

The Pro Forma Historical Financial Information set out in Section [X] of the prospectus has been derived from the [adjusted] historical financial information of ABC Company, after adjusting for the effects of the pro forma transactions and associated adjustments set out in Section [X]. The [adjusted] historical financial information was extracted from the financial



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report of ABC Company for the year(s) ended [insert date], which was audited by [Firm Name] in accordance

with the Australian Auditing Standards. [Firm Name] issued a [modified/unmodified] audit opinion on the financial report.

The Directors are responsible for the preparation of the pro forma historical financial information, including the determination of the pro forma transactions and associated adjustments.

We have conducted our review of the pro forma historical financial information in accordance with the Standard on Assurance Engagements ASAE 34XX *Assurance Engagements involving Corporate Fundraisings and Prospective Financial Information*. We reviewed the pro forma historical financial information in order to state whether anything has come to our attention, which causes us to believe that the pro forma historical financial information is not presented fairly, in all material respects, on the basis of the pro forma transactions and associated adjustments, as described in Section [X] of the prospectus, and in accordance with the accounting policies adopted by ABC Company, as disclosed in Section [X] of the prospectus.

We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- analytical procedures on the pro forma historical financial information of ABC Company;
- a review of the pro forma transactions and pro forma adjustments, as disclosed in Section [X] of the prospectus, used in the preparation of the pro forma historical financial information;
- a review of ABC Company's work papers, accounting records and other documents;
- a comparison of consistency in application of the recognition and measurement principles in Australian Accounting Standards, and the accounting policies adopted by ABC Company as disclosed in Section [X] of the prospectus; 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

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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 Historical Financial Information set out in Section [X] of the prospectus, which comprises:

- (a) the [adjusted] historical statement of comprehensive income of ABC Company for the [year(s)/period(s)] ended [insert date]; and
- (b) the [adjusted] historical statement of financial position as at [insert date],

is not presented fairly, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and accounting policies adopted by ABC Company, and the Basis of Preparation, as disclosed in Section [X] of the prospectus<sup>110</sup>.

*Review Statement on Pro Forma 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 Historical Financial Information set out in Section [X] of the prospectus, does not present fairly, in all material respects, the pro forma historical statement of financial position of ABC Company as at [insert the date], on the basis of the pro forma transactions and associated adjustments described in Section [X] of the prospectus, and otherwise in accordance with the accounting policies adopted by ABC Company, as disclosed in [X] of the prospectus.

**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 the ordinary business of ABC Company have come to our attention that would require comment on, or adjustment to, the Historical Financial Information referred to in our report or that would cause such financial information to be misleading or deceptive.

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<sup>110</sup> Identify departures from the reporting requirements of the Australian Accounting Standards, if appropriate.

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**Independence or Disclosure of Interest**

[Firm Name] does not have any interest in the outcome of this [transaction]<sup>111</sup> other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

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<sup>111</sup> Identify the nature of the transaction, for example, issue of shares or scheme of arrangement.

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**Illustration 2: Investigating Accountant’s Report on historical financial information with an unmodified reasonable assurance conclusion included in a prospectus**

[Date]<sup>112</sup>

The Directors

ABC Company Limited

[Address]

Dear Directors<sup>113</sup>

**Investigating Accountant’s Report on Historical Financial Information**

As agreed in our engagement letter dated [XXXX], we have prepared this Investigating Accountant’s Report on Historical Financial Information of ABC Company Limited (“ABC Company”) for inclusion in the prospectus dated on or about [insert date] relating to the issue of [X] ordinary shares in ABC Company.

Expressions defined in the prospectus have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity, which holds an AFSL under the Corporation Act 2001. [Firm name] holds the appropriate AFSL.

**Background**

[Insert relevant background information to ABC Company and/or the prospectus]

**Scope**

You have requested [Firm Name] to prepare a report for the review of the following financial information included in the prospectus:

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<sup>112</sup> The date of both the hard copy and electronic version of the report should be the same. The assurance practitioner may provide the electronic version of the report in Adobe Acrobat® PDF format, where possible, to ensure that the electronic version of the report is identical to the hard copy of the report. See ASIC’s RG 107 *Electronic Prospectuses*.

<sup>113</sup> Or other title as appropriate in the circumstances of the engagement.

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- (a) the [adjusted] historical statement of comprehensive income of ABC Company for the [year(s)/period(s)] ended [insert date]; and
- (b) the [adjusted] historical statement of financial position as at [insert date];

Collectively called “the Historical Financial Information”.

[Insert any other information relating to the underlying transaction(s), which is deemed relevant.]

**Review of Historical Financial Information**

The Historical Financial Information set out in Section [X] of the prospectus has been extracted from the financial report of ABC Company for the year(s) ended [insert date], which was audited by [Firm Name] in accordance with the Australian Auditing Standards. [Firm Name] issued a [modified/unmodified] audit opinion on the financial report.

The Directors of ABC Company are responsible for the preparation of the Historical Financial Information, [including determination of the adjustments to the historical financial information].<sup>114</sup>

The Historical Financial Information is presented in the prospectus in an abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to year-end financial reports prepared in accordance with the *Corporations Act 2001*.

We have conducted our assurance procedures on the Historical Financial Information in accordance with the Standard on Assurance Engagements ASAE 34XX *Assurance Engagements involving Corporate Fundraisings and Prospective Financial Information*. We conducted our assurance procedures on the Historical Financial Information in order to state whether the historical financial information is presented fairly, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and accounting policies adopted by ABC Company, as disclosed in Section [X] of the prospectus.

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<sup>114</sup> Insert the reasons for the adjustments made on the historical financial information; for example, “*The adjustments were considered necessary by the Directors to present the historical financial information on a basis consistent with the new accounting policies adopted by ABC Company in the year ended [insert date]*”.

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**Conclusion**

*Conclusion on Historical Financial Information*

In our opinion the Historical Financial Information set out in Section [X] of the prospectus, and comprising:

- (a) the historical statement of comprehensive income of ABC Company for the [year(s)/period(s)] ended [insert date]; and
- (b) the historical statement of financial position as at [insert date],

is presented fairly in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and accounting policies adopted by ABC Company, and the Basis of Preparation, as disclosed in Section [X] of the prospectus<sup>115</sup>.

**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 ABC Company have come to our attention that would require comment on, or adjustment to, the Historical Financial Information referred to in our report or that would cause such financial information to be misleading or deceptive.

**Independence or Disclosure of Interest**

[Firm Name] does not have any interest in the outcome of this [transaction]<sup>116</sup> other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

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<sup>115</sup> Identify departures from the reporting requirements of the Australian Accounting Standards, if appropriate.

<sup>116</sup> Identify the nature of the transaction, for example, issue of shares or scheme of arrangement.

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**Illustration 3: Investigating Accountant's Report on historical and pro forma historical financial information with a modified limited assurance conclusion due to a limitation of scope**

[Date]

The Directors

ABC Company Limited

[Address]

Dear Directors<sup>117</sup>

**Investigating Accountant's Report on Historical and Pro Forma  
Historical Financial Information**

As agreed in our engagement letter dated XXXX, we have prepared this Investigating Accountant's Report on Historical and Pro Forma Historical Financial Information of ABC Company Limited ("ABC Company") for inclusion in the [public document]<sup>118</sup> dated on or about [insert date] relating to the issue of [ordinary shares / units] in ABC Company.

Expressions defined in the [public document] have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity, which holds an AFSL under the Corporation Act 2001. [Firm name] holds the appropriate AFSL.

**Background**

[Insert any background information relating to the Entity and/or proposed fundraising/takeover/scheme of arrangement, which is deemed relevant; for example, purpose of the proposed fundraising.]

**Scope**

You have requested [Firm Name] to prepare a report for the review of the following financial information included in the [public document]:

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<sup>117</sup> Or other title as appropriate in the circumstances of the engagement.

<sup>118</sup> Specify the type of the public document.

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- (a) the [adjusted] historical statement of comprehensive income of ABC Company for the [year(s)/period(s)] ended [insert date]; and
- (b) the [adjusted] historical statement of financial position as at [insert date];

Collectively called “the Historical Financial Information”, and

- (c) pro forma historical statement of financial position as at [insert date] (“the Pro Forma Historical Financial Information”); which assumes completion of the proposed transactions disclosed in Section [X] of the [public document] (“the Pro Forma Transactions”). Due to its nature, the pro forma financial information does not represent the company’s actual [financial position], [financial performance], [or cash flows].

[Insert any other information relating to the underlying transaction(s), which is deemed relevant.]

**Review of Historical Financial Information**

The historical financial information set out in Section [X] of the [public document] has been extracted from the financial report of ABC Company for the year(s) ended [insert date], which was audited by [Firm Name] in accordance with the Australian Auditing Standards. [Firm Name] issued a [modified/unmodified] audit opinion on the financial report.

The Directors of ABC Company are responsible for the preparation of the historical financial information, [including determination of the adjustments to the historical financial information].<sup>119</sup>

The historical financial information is presented in the [public document] in an abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to [annual] financial reports prepared in accordance with the *Corporations Act 2001*.

We have conducted our review of the historical financial information in accordance with the Standard on Assurance Engagements ASAE 34XX *Assurance Engagements involving Corporate Fundraisings and Prospective Financial Information*. We reviewed the historical financial information in order to state whether anything has come to our attention, which causes us to

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<sup>119</sup> Insert the reasons for the adjustments made on the historical financial information; for example, “*The adjustments were considered necessary by the Directors to present the historical financial information on a basis consistent with the new accounting policies adopted by ABC Company in the year ended [insert date]*”.



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believe that the historical financial information is not presented fairly, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and accounting

policies adopted by ABC Company, as disclosed in Section [X] of the [public document].

We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- analytical procedures on the pro forma historical financial information of ABC Company;
- a review of ABC Company's work papers, accounting records and other documents;
- a review of the adjustments made to the historical financial information, as described in Section [X] of the [public document] [if applicable];
- a comparison of consistency in application of the recognition and measurement principles in Australian Accounting Standards, and the accounting policies adopted by ABC Company as disclosed in Section [X] of the [public document]; 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.

**Review of Pro Forma Historical Financial Information**

The Pro Forma Historical Financial Information set out in Section [X] of the [public document] has been derived from the [adjusted] historical financial information of ABC Company, after adjusting for the effects of the pro forma transactions and associated adjustments set out in Section [X]. The [adjusted] Historical Financial Information was extracted from the financial report of ABC Company for the year(s) ended [insert date], which was audited by [Firm Name] in accordance with the Australian Auditing Standards. [Firm Name] issued a [modified/unmodified] audit opinion on the financial report.

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The Directors are responsible for the preparation of the Pro Forma Historical Financial Information, including the determination of the pro forma transactions and pro forma adjustments.

The pro forma historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to [annual] financial reports prepared in accordance with the *Corporations Act 2001*.

We have conducted our review of the pro forma historical financial information in accordance with the Standard on Assurance Engagements ASAE 34XX *Assurance Engagements involving Corporate Fundraisings and Prospective Financial Information*. We reviewed the pro forma historical financial information in order to state whether anything has come to our attention, which causes us to believe that the pro forma historical financial information is not presented fairly, in all material respects, on the basis of the pro forma transactions and pro forma adjustments, as described in Section [X] of the [public document], and in accordance with the accounting policies adopted by ABC Company, as disclosed in Section [X] of the [public document].

We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- analytical procedures on the pro forma historical financial information of ABC Company;
- a review of the pro forma transactions and associated adjustments, as disclosed in Section [X] of the [public document], used in the preparation of the pro forma historical financial information;
- a review of ABC Company's work papers, accounting records and other documents;
- a comparison of consistency in application of the recognition and measurement principles in Australian Accounting Standards, and the accounting policies adopted by ABC Company as disclosed in Section [X] of the [public document]; 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

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have not performed an audit and, accordingly, we do not express an audit opinion.

**Basis of Qualified Review Conclusion of Pro Forma Historical Financial Information**

In preparing the pro forma historical financial information, the Directors of ABC Company only made preliminary adjustments relating to ABC Company's investment in XYZ Company Limited, which has a carrying value of \$XXX as at [insert date] and has been accounted for by equity method. XYZ Limited was acquired by ABC Company as a foreign associate during the year ended [insert date], as described in Section [X] of the [public document]. The preliminary adjustments made by the Directors reflected ABC Company's estimated share in XYZ Limited's net income for the [period] ended [insert date]. XYZ Limited is being audited by a local firm in [XYZ Limited's place of business] and its audit of XYZ Limited's financial report for the [period] ended [insert date] has not yet been completed as at [insert date]. Consequently, the pro forma historical financial information does not necessarily reflect the final audited carrying value of ABC Company's investment in XYZ Limited as at [insert date].

**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 Historical Financial Information set out in Section [X] of the [public document], and comprises:

- (a) the [adjusted] historical statement of comprehensive income of ABC Company for the [year(s)/period(s)] ended [insert date]; and
- (b) the [adjusted] historical statement of financial position as at [insert date],

are not presented fairly, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and accounting policies adopted by ABC Company, and the Basis of Preparation, as disclosed in Section [X] of the [public document]<sup>120</sup>.

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<sup>120</sup> Identify departures from the reporting requirements of the Australian Accounting Standards, if appropriate.

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*Review Statement on Pro Forma Historical Financial Information*

Based on our review, which is not an audit, nothing has come to our attention, except for the possible effects described in the Basis for Qualification of Conclusion paragraph, which causes us to believe that the

Pro Forma Historical Financial Information set out in Section [X] of the [public document], does not present fairly, in all material respects, the pro forma historical statement of financial position of ABC Company as at [insert the date], on the basis of the pro forma transactions and pro forma adjustments described in Section [X] of the [public document], and in accordance with the accounting policies adopted by ABC Company, as disclosed in Section [X] of the [public document].

**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 ABC Company have come to our attention that would require comment on, or adjustment to, the historical financial information referred to in our report or that would cause such financial information to be misleading or deceptive.

**Independence or Disclosure of Interest**

[Firm Name] does not have any interest in the outcome of this [transaction]<sup>121</sup> other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

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<sup>121</sup> Identify the nature of the transaction, for example, issue of shares or scheme of arrangement.

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**Illustration 4: Investigating Accountant's Report on pro forma forecast  
financial information with an unmodified limited assurance conclusion**

[Date]<sup>122</sup>

The Directors

ABC Company Limited

[Address]

Dear Directors<sup>123</sup>

**Investigating Accountant's Report on Pro Forma Forecast Statement of  
Earnings**

As agreed in our engagement letter dated XXXX, we have prepared this Investigating Accountant's Report (report) on pro forma forecast statement of earnings for the [period ending] 30 June 20X0 of ABC Company Limited ["ABC Company"] for inclusion in the [public document]<sup>124</sup> dated on or about [insert date] relating to the issue of [ordinary shares / units] in ABC Company. Expressions defined in the [public document] have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity, which holds an AFSL under the Corporation Act 2001. [Firm name] holds the appropriate AFSL.

**Background**

[Insert any background information relating to ABC Company and/or proposed fundraising/takeover/scheme of arrangement, which is deemed relevant; for example, purpose of the proposed fundraising.]

**Scope**

You have requested [Firm Name] to prepare a report for the review on of the Pro Forma Forecast statement of earnings for the [period] ending 30 June 20X0 included in the [public document].

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<sup>122</sup> The date of both the hard copy and electronic version of the report should be the same. The assurance practitioner may provide the electronic version of the report in Adobe Acrobat © PDF format, where possible, to ensure that the electronic version of the report is identical to the hard copy of the report. See ASIC's RG 107 *Electronic Prospectuses*.

<sup>123</sup> Or other title as appropriate in the circumstances of the engagement.

<sup>124</sup> Specify the type of the public document.

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[Insert any other information relating to the underlying transaction(s), which is deemed relevant.]

**Review of Pro Forma Forecast Statement of Earnings**

The Pro Forma Forecast statement of earnings set out in Section [X] of the [public document], has been derived from Income Statement of ABC Company for the [period] ending 30 June 20X0 set out in Section [X] of the [public document], adjusted for the effects of the pro forma transactions and associated adjustments, set out in Section [X] of the [public document]. Due to its nature, the pro forma financial information does not represent the company's actual [financial position], [financial performance], [or cash flows].

The Directors are responsible for the preparation of the pro forma forecast statement of earnings for the period ending 30 June 20X0, including the best-estimate assumptions underlying the forecast statement of earnings, and the determination of the pro forma transactions and pro forma adjustments. The Directors' best-estimate assumptions underlying the forecast statement of earnings are set out in Section [X] of the [public document].

We have conducted our examination of the pro forma forecast statement of earnings for the [period] ending 30 June 20X0 in accordance with the Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Corporate Fundraisings and Prospective Financial Information*. Our procedures included:

- examination, on a test basis, of evidence supporting the best-estimate assumptions set out in Section [X] of the [public document];
- review of the pro forma transactions and adjustments, as disclosed in Section [X] of the [public document];
- comparison of the consistency in application of the recognition and measurement principles in Australian Accounting Standards, and the accounting policies adopted by ABC Company as disclosed in Section [X] of the [public document].
- enquiry of Directors, management and others; and
- such other analytical procedures as we considered necessary.

These procedures have been undertaken in order to state whether anything has come to our attention, which causes us to believe, in all material respects, that:

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- (a) the Directors' best-estimate assumptions do not provide a objectively reasonable grounds for the preparation of the pro forma forecast statement of earnings;
- (b) the pro forma forecast statement of earnings is not:
  - (i) properly prepared on the basis of the best-estimate assumptions as set out in Section [X] of the public document and the pro forma transactions and associated adjustments as described in Section [X] of the public document;
  - (ii) presented fairly, in accordance with the accounting policies adopted by ABC Company, as disclosed in Section [X] of the [public document].

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**

Based on our examination, which is not an audit, nothing has come to our attention, which causes us to believe in all material respects, that:

- (a) the Directors' best-estimate assumptions do not provide an objectively reasonable basis for the preparation of the pro forma forecast statement of earnings;
- (b) the pro forma forecast statement of earnings is not properly prepared on the basis of the assumptions as set out in Section [X] of the public document, and the pro forma transactions and associated adjustments as described in Section [X] of the [public document]; and presented fairly, in accordance with the accounting policies adopted by ABC Company, and the Basis of Preparation, as disclosed in Section [X] of the [public document]; and
- (c) the pro forma forecast itself is unreasonable.

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**Independence or Disclosure of Interest**

[Firm Name] does not have any interest in the outcome of this [transaction]<sup>125</sup> other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

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<sup>125</sup> Identify the nature of the transaction, for example, issue of shares or scheme of arrangement.



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**Illustration 5: Investigating Accountant’s Report on the examination of prospective financial information in the form of a forecast included in a public document with an unmodified limited assurance conclusion**

[Date]<sup>126</sup>

The Directors

ABC Company Limited

[Address]

**Part 1- Investigating Accountant’s Report on Forecast Financial Information**

Dear Directors<sup>127</sup>

As agreed in our engagement letter dated XXXX, we have prepared this Investigating Accountant’s Report (report) on the forecast financial information of ABC Company Limited (“ABC Company”) for inclusion in the [public document<sup>128</sup>] dated on or about [insert date] relating to the issue of [ordinary shares/units] in ABC Company. Expressions defined in the [public document] have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity, which holds an AFSL under the Corporation Act 2001. [Firm name] holds the appropriate AFSL.

**Background**

The nature of this report is such that it can only be issued by an entity, which holds an AFSL under the Corporation Act 2001. [Firm name] holds the appropriate AFSL.

[Insert any background information relating to the entity and/or the proposed fundraising/takeover/scheme of arrangement, which is deemed relevant; for example, describe the purpose of the corporate fundraising.]

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<sup>126</sup> The date of both the hard copy and electronic version of the report should be the same. See ASIC’s RG 107 *Electronic Prospectuses*.

<sup>127</sup> Or other title as appropriate in the circumstances of the engagement.

<sup>128</sup> Specify the type of the public document.

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**Scope**

You have requested [Firm Name] to prepare a report for the review of the forecast income statement of ABC Company for the year(s) ending [insert date] (“the Financial Forecast”), as set out in Section [X] of the [public document].

The Directors of ABC Company are responsible for the preparation and presentation of the Financial Forecast, including the best-estimate assumptions set out in Section [X] of the [public document], on which the Financial Forecast is based.

The Financial Forecast has been prepared by the Directors for [the purpose of]<sup>129</sup>. We disclaim any assumption of responsibility for any reliance on this Report, or on the Financial Forecast to which it relates to any person other than to the Directors, or for any purpose other than that for which it was prepared.<sup>130</sup>

We have conducted our review of the Financial Forecast in accordance with the Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Corporate Fundraisings and Prospective Financial Information*. Our procedures included examination, on a test basis, of evidence supporting the best-estimate assumptions, enquiry and comparison and such other analytical procedures, as we considered necessary in the circumstances. These procedures have been undertaken to form a conclusion whether anything has come to our attention, which causes us to believe, in all material respects, that:

- the Directors’ best-estimate assumptions as set out in Section [X] of the [public document] do not provide an objectively reasonable basis for the preparation of the forecast; and
- the Financial Forecast is not:
  - (a) properly prepared on the basis of the assumptions as set out in Section [X], and

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<sup>129</sup> Indicate the Directors’ purpose for preparing the Financial Forecast, for example: “to provide prospective investors with a guide to the potential financial performance of ABC Company for the year(s) ending [insert date].”

<sup>130</sup> When the Investigating Accountant’s Report has been prepared for users other than the Directors, this sentence should be amended to state: “We disclaim any assumption of responsibility for any reliance on this Report or on the Financial Forecast to which it relates for any purposes other than that for which it was prepared.”

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- (b) presented on a basis consistent with the accounting policies adopted and disclosed by ABC Company and the Basis of Preparation in Section [X] of the [public document].

The Financial Forecast relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the best-estimate assumptions on which the Financial Forecast is based, such evidence is generally future oriented and therefore speculative in nature. Given the nature of the evidence available in assessing the reasonableness of the Directors' best-estimate assumptions, we are not in a position to obtain the level of assurance necessary to express a reasonable assurance conclusion on those assumptions. Accordingly, we provide a lesser level of assurance on the reasonableness of the Directors' best-estimate assumptions.<sup>131</sup> The conclusion expressed in this Report has been formed on the above basis.

**Review Statement**

Based on our review, nothing has come to our attention, which causes us to believe that, in all material respects:

- the Directors' best-estimate assumptions, as set out in Section [X] of the [public document] do not provide a objectively reasonable basis for the preparation of the Financial Forecast(s);
- the Financial Forecast(s) is[/are] has not been properly prepared on the basis of the Directors' assumptions (set out in Section [X] of the [public document]); and on a basis consistent with the accounting policies adopted and used by ABC Company set out in Section [X] of the [public document] (except for the changes in accounting policies as disclosed in Section [X] of the [public document]);<sup>132</sup>
- Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, we express no opinion as to whether the forecast will be achieved.

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<sup>131</sup> where appropriate.

<sup>132</sup> where appropriate.

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**[Independence or Disclosure of Interest Statement]**

Yours faithfully

[Partner]

[Firm Name]

Date

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**Illustration 6: Investigating Accountant's Report on the proper  
compilation of Pro Forma Financial Information with an unmodified  
limited assurance conclusion**

[Date]<sup>133</sup>

The Directors

[Name of Entity]

[Address]

**Investigating Accountant's Report on the Compilation of Pro Forma  
Financial Information**

Dear Directors<sup>134</sup>

As agreed in our engagement letter dated XXXX, we have completed our assurance engagement to report whether the pro forma financial information has been properly compiled by [the Directors]. The pro forma financial information consists of [the pro forma net asset statement as at [date]], [the pro forma income statement for the period ended [date]] [and the pro forma cash flow statement for the period ended [date]] [as set out on Section [X] of the [public document] issued by the company]. The applicable criteria in accordance with which [the Directors] has performed the compilation are specified in Section [X] of the [public document].

The pro forma financial information has been compiled by the Directors to illustrate the impact of the [event or transaction] set out in Section [X] on the [public document]. As part of the process, information about the company's [financial position], [financial performance] [and cash flows] has been extracted from the company's financial report [for the period ended [date]], on which [[an audit or review] report]/[no audit or review report] has been issued. Due to its nature, the pro forma financial information does not represent the company's actual [financial position], [financial performance], [or cash flows].

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<sup>133</sup> The date of both the hard copy and electronic version of the report should be the same. The assurance practitioner may provide the electronic version of the report in Adobe Acrobat® PDF format, where possible, to ensure that the electronic version of the report is identical to the hard copy of the report. See ASIC's RG 107 *Electronic Prospectuses*.

<sup>134</sup> Or other title as appropriate in the circumstances of the engagement.

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The nature of this report is such that it can only be issued by an entity, which holds an AFSL under the Corporation Act 2001. [Firm name] holds the appropriate AFSL.

**Directors' Responsibilities for the Pro Forma Financial Information**

The Directors of ABC Company are responsible for compiling the pro forma financial information on the basis stated.

**Assurance Practitioner Responsibilities**

Our responsibility is to express a conclusion about whether the pro forma financial information has been properly compiled by [the Directors] on the basis stated. We conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Corporate Fundraisings and Prospective Financial Information*, issued by the Auditing and Assurance Standards Board (AUASB). This Standard on Assurance Engagements requires that the assurance practitioner comply with relevant ethical requirements, and plan and perform procedures to obtain limited assurance on whether anything comes to our attention that causes us to believe that the pro forma financial information has not been compiled by [the Directors], in all material respects, in accordance basis stated. Under the Standard on Assurance Engagements, pro form financial information is described as being properly compiled when [the Directors] has, in all material respects, performed the compilation on the basis stated.

Our procedures included obtaining evidence about whether:

- [The Directors] have an appropriate basis for presenting the significant effects directly attributable to the event(s) or transaction(s);
- The related pro forma adjustments give appropriate effect to that identified basis;
- The pro forma column reflects the proper application those adjustments to the base financial information used as the source

The procedures selected depend on the assurance practitioner's judgement, having regard to the assurance practitioner's understanding of the nature of the company, the event(s) or transaction(s) in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the pro forma financial information.

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We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

We are not responsible for updating any previously issued audit or review reports on any financial information used in compiling the pro forma financial information. In addition, we have not performed an audit or review of the pro forma financial information and, accordingly, we do not express an opinion on the pro forma financial information.

**Conclusion**

Based on our examination, nothing has come to our attention that causes us to believe that the pro forma financial information has not been compiled, in all material respects, in accordance basis stated.

**Independence or Disclosure of Interest Statement**

Yours faithfully

[Partner]

[Firm Name]

Date

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Prospective Financial Information*

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**Illustration 7: Private Report on the examination of prospective financial information in the form of a forecast (including hypothetical assumptions) with an unmodified limited assurance conclusion.**

[Date]

The Directors

[Name of Entity]

[Address]

The Directors<sup>135</sup>

**Private Report on the Examination of Prospective Financial Information**

As agreed in our engagement letter dated XXXX, we have prepared this Private Report (report) on the forecast financial information of ABC Company Limited (“ABC Company”) for distribution to users specified in Section [X] relating to the issue of [ordinary shares/units] in ABC Company.

The nature of this report is such that it can only be issued by an entity, which holds an AFSL under the Corporation Act 2001. [Firm name] holds the appropriate AFSL.

**Background**

[Insert any background information relating to the entity and/or the proposed fundraising/takeover/scheme of arrangement, which is deemed relevant; for example, describe the purpose of the proposed fundraising.]

**Scope**

You have requested [Firm Name] to prepare a report on the examination of the forecast income statement of ABC Company prepared for the year(s) ending [insert date] (“the Financial Forecast”), as set out in Section [X] of the Private Report.

The Management of ABC Company are responsible for the preparation and presentation of the Financial Forecast, including the best-estimate and hypothetical assumptions set out in Section [X] of the Private Report, on which the Financial Forecast is based.

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<sup>135</sup> Or other title as appropriate in the circumstances of the engagement.



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***Prospective Financial Information***

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The Financial Forecast has been prepared by management for [the purpose of].<sup>136</sup> We disclaim any assumption of responsibility for any reliance on this Report, or on the Financial Forecast to which it relates to any person other than management, or for any purpose other than that for which it was prepared.<sup>137</sup> We have assumed, and relied on representations from certain members of management of [ABC Company] that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that the information provided to use for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

We have conducted our examination of the Financial Forecast in accordance with the Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Corporate Fundraisings and Prospective Financial Information*. Our procedures included examination, on a test basis, of evidence supporting the best-estimate assumptions, enquiry and comparison and such other analytical procedures, as we considered necessary in the circumstances. These procedures have been undertaken to form a conclusion whether anything has come to our attention, which causes us to believe that:

- Management's best-estimate assumptions as set out in Section [X] of the Private Report do not provide an objectively reasonable basis for the preparation of the forecast; and
- whether, in all material respects, the forecast is not:
  - (a) prepared on the basis of the best-estimate assumptions as set out in Section [X], and
  - (b) is not presented fairly on a basis consistent with the accounting policies adopted and disclosed by ABC Company in Section [X] of the Private Report).

The Financial Forecast relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the best-estimate assumptions on which the Financial Forecast is based, such evidence is generally future oriented and therefore speculative in nature. Given the nature of the evidence available in assessing the reasonableness of

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<sup>136</sup> Indicate the Directors' purpose for preparing the Financial Forecast, for example: "*to provide prospective investors with a guide to the potential financial performance of ABC Company for the year(s) ending [insert date].*"

<sup>137</sup> When the Investigating Accountant's Report has been prepared for users other than the Directors, this sentence should be amended to state: "*We disclaim any assumption of responsibility for any reliance on this Report or on the Financial Forecast to which it relates for any purposes other than that for which it was prepared.*"

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management's best-estimate assumptions, we are not in a position to obtain the level of assurance necessary to express a reasonable assurance conclusion on those assumptions. Accordingly, we provide a lesser level of assurance on the reasonableness of managements best-estimate assumptions.<sup>138</sup> The conclusion expressed in this Private Report has been formed on the above basis.

**Review Statement**

Based on our review, nothing has come to our attention, which causes us to believe that, in all material respects:

- Managements best-estimate assumptions, as set out in Section [X] of the Private Report underlying the Financial Forecast do not provide an objectively reasonable basis for the preparation of the Financial Forecast(s); and
- the Financial Forecast(s) is[/are] has not been prepared on the basis of managements assumptions (set out in Section [X] of the Private Report); and on a basis consistent with the accounting policies adopted and used by ABC Company set out in Section [X] of the Private Report (except for the changes in accounting policies as disclosed in Section [X]).<sup>139</sup>

Actual results are likely to be different from the Financial Forecast since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, we express no opinion as to whether the Financial Forecast will be achieved.

**Reliance on this Report**

This report is address to the Director's [ABC Company] (as responsible party for ABC Company) and [specify].

We have not taking instructions from the above parties (other than XXX), nor have they confirmed the suitability of our Engagement Letter for their individual purposes.

This report may be disclosed on a confidential basis to [specify] for the purposes of [specify]. In permitting this report to be shown to [specify] we make no representation that it is adequate for their purses and do not assume

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<sup>138</sup> where appropriate.

<sup>139</sup> where appropriate.

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any responsibility or duty to them for the consequences of any reliance they may choose to place on this report, or our work.

[Include any other matters that the assurance practitioner considers necessary]

**Independence or Disclosure of Interest**

[Firm Name] does not have any interest in the outcome of this [transaction]<sup>140</sup> other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

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<sup>140</sup> Indicate the nature of the transaction; for example, issue of shares or a scheme of arrangement.