

EXPOSURE DRAFT

ED 1/11
(February 2011)

**Proposed Standard on
Assurance Engagements
ASAE 34XX
*Fundraisings involving
Proposed Corporate
Transactions and Prospective
Financial Information, as well
as the examination of
Prospective Financial
Information for Other
Purposes***

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

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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:

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au.

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Proposed Standard on Assurance Engagements ASAE 34XX
*Fundraisings involving Proposed Corporate Transactions and Prospective
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Information for Other Purposes*

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CONTENTS

PREFACE

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application	1-2
Operative Date	3
Introduction	
Scope of this Standard on Assurance Engagements	4-9
Effective Date	10
Objectives	11
Definitions	12
Requirements	
Ethical Requirements	13
Quality Control	14
Inability to Comply with the Requirements of this ASAE....	15-16
Historical financial information	
Assurance Engagement Acceptance	17-18
Agreeing on the Terms of the Assurance Engagement	19-21
Changes in the Terms of the Assurance Engagement	22-24
Planning the Assurance Engagement	25-30
Procedures and Evidence	31-33
Evaluating the Sufficiency and Appropriateness of Evidence Obtained	34
Other Information	35-41
Communications with the Responsible Party.....	42-43
Going Concern Considerations	44-45

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Consideration of Events Up to the Date of the assurance report	46-47
Consideration of Events Identified After the Date of assurance report.....	48-49
Written Representations	50-54
Concluding on the Engagement	55-63
Reporting on the Engagement.....	64-65
Consent to the Inclusion of the Assurance Report in a Public Document.....	66-67
Documentation.....	68
Pro Forma Historical Financial Information	
Assurance Engagement Acceptance	69
Agreeing on the Terms of the Assurance Engagement	70-73
Procedures and Evidence	74-77
Written Representations	78
Concluding on the Engagement	79-80
Assurance Report.....	81
Pro forma Forecast and Forecast Financial Information	
Assurance Engagement Acceptance	82
Agreeing on the Terms of the Assurance Engagement	83-84
Planning the Assurance Engagement	85-87
Procedures and Evidence	88-90
Written Representations	91
Concluding on the Engagement	92-93
Reporting on the Engagement.....	94
Aggregated financial information	
Assurance Engagement Acceptance	95-96
Agreeing on the Terms of the Assurance Engagement	97-99
Changes in the Terms of the Assurance Engagement	100-102

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Planning the Assurance Engagement	103-109
Procedures and Evidence	110-112
Other Information	113-119
Communications with the Responsible Party.....	120-121
Going Concern Considerations	122-123
Consideration of Events Up to the Date of the assurance report.....	124-125
Consideration of Events Identified After the Date of assurance report.....	126-127
Written Representations	128-132
Concluding on the Engagement	133-142
Reporting on the Engagement.....	143-144
Consent to the Inclusion of the Assurance Report in another document.....	145-146
Documentation.....	147
Reporting on the process to compile financial information	
Assurance Engagement Acceptance	148-149
Agreeing on the Terms of the Assurance Engagement	150-152
Changes in the Terms of the Assurance Engagement	153-155
Planning the Assurance Engagement	156-161
Procedures and Evidence	162
Communications with the Responsible Party.....	163-164
Consideration of Events Up to the Date of the Assurance Report.....	165-166
Consideration of Events Identified After Date of the Assurance Report	167-168
Written Representations	169-173
Concluding on the Engagement	174-182
Reporting on the Engagement.....	183-184

Proposed Standard on Assurance Engagements ASAE 34XX
*Fundraisings involving Proposed Corporate Transactions and Prospective
 Financial Information, as well as the examination of Prospective Financial
 Information for Other Purposes*

Consent to the Inclusion of the Assurance Report in another document.....	185-186
Documentation.....	187
Reporting on Prospective Financial Information	
Assurance Engagement Acceptance	188-189
Agreeing on the Terms of the Assurance Engagement	190-192
Changes in the Terms of the Assurance Engagement	193-195
Planning the Assurance Engagement.....	196-203
Procedures and Evidence	204-207
Evaluating the Sufficiency and Appropriateness of Evidence Obtained	208
Other Information	209-215
Communications with the Responsible Party.....	216-217
Going Concern Considerations	218-219
Consideration of Events Up to the Date of the Assurance Report.....	220-221
Consideration of Events Identified After the Date of the Assurance Report	222-223
Written Representations.....	224-228
Concluding on the Engagement	229-237
Reporting on the Engagement.....	238-239
Consent to the Inclusion of the Assurance Report in another document.....	240-241
Documentation.....	242
Application and Other Explanatory Material	
Reasonable Assurance Engagements	A1
Non-Assurance Services	A2-A3
Historical Financial Information	
Engagement Acceptance	A4-A10
Agreeing on the Terms of the Assurance Engagement	A11-A13

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Changes in the Terms of the Assurance Engagement	A14-A15
Planning the Assurance Engagement	A16-A28
Procedures and Evidence	A29-A30
Evaluating the Sufficiency and Appropriateness of Evidence Obtained	A31
Other Information	A32-A35
Communications with the Responsible Party.....	A36-A37
Going Concern Considerations	A38-A41
Consideration of Events Up to the Date of the Assurance Report	A42
Consideration of Events After the Date of the Assurance Report	A43-A44
Written Representations	A45-A51
Concluding on the Engagement	A52-A56
Reporting on the Engagement.....	A57-A60
Consent to the Inclusion of the assurance report in a Public Document	A61
Documentation.....	A62-A63
Pro Forma Historical financial information	
Agreeing on the Terms of the Assurance Engagement	A64
Planning the Assurance Engagement	A65-A66
Procedures and Evidence	A67-A70
Written Representations	A71
Concluding on the Engagement	A72-A74
Pro Forma Forecast and Forecast financial information	
Agreeing on the Terms of the Assurance Engagement	A75
Planning the Assurance Engagement	A76
Procedures and Evidence	A77-A83
Written Representations	A84
Concluding on the Engagement	A85-A88

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

Types of Conclusions in the Assurance Report	A89-A93
Reporting on the Engagement.....	A94-A98
Aggregated financial information	
Assurance Engagement Acceptance	A99-A105
Agreeing on the Terms of the Assurance Engagement	A106-A108
Changes in the Terms of the Assurance Engagement	A109-A110
Planning the Assurance Engagement	A111-A116
Procedures and Evidence	A117-A118
Evaluating the Sufficiency and Appropriateness of Evidence Obtained	A119
Other Information	A120-A123
Communications with the Responsible Party.....	A124-A125
Consideration of Events Up to the Date of the assurance report	A126
Consideration of Events After the Date of the Assurance Report.....	A127-A128
Written Representations	A129-A132
Concluding on the Engagement	A133
Types of Conclusions in the Assurance Report	A134-A138
Reporting on the Engagement.....	A139-A142
Consent to the Inclusion of the Assurance Report in a Public Document.....	A143
Documentation.....	A144-A145
Reporting on the process to compile financial information	
Assurance Engagement Acceptance	A146-A152
Agreeing on the Terms of the Assurance Engagement	A153-A155
Changes in the Terms of the Assurance Engagement	A156-A157
Planning the Assurance Engagement	A158-A165
Procedures and Evidence	A166-A167
Communications with the Responsible Party.....	A168-A169

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

Consideration of Events Up to the Date of the assurance report	A170
Consideration of Events After the Date of the Assurance Report	A171-A172
Written Representations	A173-A179
Concluding on the Engagement	A180-A185
Reporting on the Engagement.....	A186-A188
Consent to the Inclusion of the Assurance Report in another Document	A189
Documentation.....	A190-A191
Reporting on Prospective Financial Information	
Engagement Acceptance.....	A192-A193
Agreeing on the Terms of the Assurance Engagement	A194-A196
Changes in the Terms of the Assurance Engagement	A197-A198
Planning the Assurance Engagement	A199-A212
Procedures and Evidence	A213-A218
Evaluating the Sufficiency and Appropriateness of Evidence Obtained	A219
Other Information	A220-A223
Communications with the Responsible Party.....	A224-A225
Going Concern Considerations	A226-A229
Consideration of Events Up to the Date of the Assurance Report	A230
Consideration of Events After the Date the Assurance Report	A231-A232
Written Representations	A233-A239
Concluding on the Engagement	A240-A243
Types of Conclusions in the Assurance Report	A244-A248
Reporting on the Engagement.....	A249-A253
Consent to the Inclusion of the Assurance Report in another Document.....	A254

Proposed Standard on Assurance Engagements ASAE 34XX
*Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes*

Documentation..... A255-A256

**Conformity with International Standards on Assurance
Engagements**

Draft

Proposed Standard on Assurance Engagements ASAE 34XX
*Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes*

Appendices:

Appendix 1

Appendix 2

Appendix 3

Appendix 4

Appendix 5

Appendix 6

Draft

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

PREFACE

Reasons for Issuing ED 1/11

The AUASB issues Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes* 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Main Proposals

This proposed Standard on Assurance Engagements establishes requirements and provides application and other explanatory material regarding for undertaking and reporting on *Assurance Engagements Relating to Proposed Corporate Transactions and Prospective Financial Information* that involve the inclusion of financial information (in historical and/or prospective form) included in, or to be included in a public document, or for other purposes, such as a private report.

Proposed Operative Date

It is intended that this proposed Standard on Assurance Engagements will be operative for assurance engagements related to proposed corporate transactions and 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 *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes* 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?

Proposed Standard on Assurance Engagements ASAE 34XX
*Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes*

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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Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes* 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**

***Fundraisings involving Proposed Corporate
Transactions and Prospective Financial Information,
as well as the examination of Prospective Financial
Information for Other Purposes***

Application

1. This Standard on Assurance Engagements applies to assurance engagements relating to proposed fundraisings, takeovers and schemes of arrangement, and other corporate transactions that involve:
 - (a) the examination of historical and/or prospective financial information included in, or to be included in, a public document; and
 - (b) the examination of historical and/or prospective financial information not included in, or to be included in a public document, that is intended to be distributed to a party external to the entity.
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 to a party internal to the entity, other than the engaging party 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 relating to proposed fundraisings, takeovers, schemes of arrangements, other corporate transactions (“proposed corporate

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

transactions”), and the examination of prospective financial information, that commence on or after [insert date].

Introduction

Scope of this Standard on Assurance Engagements

4. This ASAE deals with the responsibilities of the assurance practitioner when planning, performing, concluding, and reporting on assurance engagements related to financial information prepared by the responsible party in respect of proposed fundraisings, takeovers, schemes of arrangements, other corporate transactions (“proposed corporate transactions”), and the examination of prospective 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 “financial information not included, or to be included, in a public document” is taken to mean financial information included in a other document.
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 financial information; and/or
 - (d) prospective financial information;and may be aggregated or not.

References to “financial information” in this ASAE is taken to mean the specific financial information included in, or to be included in the public document, or other document, on which the assurance practitioner intends to express an assurance conclusion.

Types of Assurance

6. Assurance engagements in connection with proposed corporate transactions, 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 engaging party to

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

conduct a reasonable assurance engagement. The financial information on which the assurance practitioner expresses a reasonable assurance conclusion is ordinarily only historical financial information. (Ref: Para. A1)

Non-Assurance Services

7. The assurance practitioner may be requested by the engaging party to perform both assurance and non-assurance services as part of the engagement request. This ASAE applies only to assurance services. (Ref: Para. A2-A3)

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 proposed corporate transactions and prospective financial information. In particular (Ref: Appendix 2):
- (a) where the purpose of the assurance engagement is to obtain limited assurance on historical financial information or pro forma historical financial information, the assurance engagement is performed in accordance with this ASAE, in conjunction with ASRE 2405;
 - (b) where the purpose of the assurance engagement is to obtain limited assurance on non-historical financial information, (for example, pro forma historical, prospective, and pro forma forecast financial information), the assurance engagement is performed in accordance with this ASAE, in conjunction with ASAE 3000;
 - (c) where the purpose of the assurance engagement is to obtain limited assurance on the responsible party's compilation of specified historical and/or prospective financial information, the assurance engagement is performed in accordance with this ASAE, in conjunction with ASAE 3000;
 - (d) where the purpose of the assurance engagement is to obtain limited assurance on the responsible party's process to compile specified historical and/or prospective financial

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

information, the assurance engagement is performed in accordance with this ASAE, in conjunction with ASAE 3000;

- (e) where the purpose of the assurance engagement is to obtain reasonable assurance on historical financial information, the assurance engagement is performed in accordance with this ASAE in conjunction with Australian Auditing Standards.
9. This ASAE does not override the requirements of ASRE 2405, ASAE 3000, Australian Auditing Standards, or Australian Assurance Standards, which may apply in the circumstances of the assurance engagement. It does not purport to deal with all the considerations that may be relevant in the circumstances of the assurance engagement.

Effective Date

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

Objectives

11. The objectives of the assurance practitioner in conducting an assurance engagement are:
- (a) To plan and perform the engagement to obtain assurance about whether the financial information has been prepared in accordance with the:
 - (i) applicable criteria; or
 - (ii) stated basis of preparation;depending on the type of financial information; and to express the results as either a limited assurance or reasonable assurance conclusion in a written report (“assurance report”)

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,

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- summarised, and/or extracted from different source(s) by the responsible party, for the purpose of presenting the financial information included in a public document, or other document.
- (b) Applicable criteria means the criteria used by the responsible party in the preparation of financial information (other than pro forma) included in the public document, or other document. The criteria used depends on the nature of the financial information.¹
- (c) Applicable financial reporting framework means the financial reporting framework adopted by management and, where appropriate, those charged with governance, in the preparation of the financial information that is acceptable in view of the nature of the entity and the objective of the financial information. In Australia, an applicable financial reporting framework that may be used in preparing such 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 the process to compile the financial information) included, or to be included, in the public document, or other 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 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 in relation to:
- (i) financial information included in, or to be included in, a public document, relating to a proposed

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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- corporate transaction, or prospective financial information. This is commonly referred to as an Investigating Accountant's Report. Refer paragraph (t) of this ASAE for a definition of an Investigating Accountant's Report; or
- (ii) financial information prepared for other purposes, and not included in, or to be included in, a public document ("other document") issued in connection with a proposed corporate transaction, or prospective financial information. This is commonly referred to as a Private Report. Refer paragraph (dd) of this ASAE for a definition of a Private Report.
- (h) Base financial information means financial information that is the starting point to which pro forma adjustments are applied by the responsible party to arrive at the pro forma financial information. Base financial information is ordinarily historical in nature, however, it can also be prospective (for example a profit forecast).
- (i) Basis of preparation means the basis selected and adopted by the responsible party for the preparation of pro forma financial information in the context of the effects of the event(s) or transaction(s) being illustrated.
- (j) Best-estimate assumptions means assumptions as to future events, which management expects to take place and actions management expects to take as of the date the information is prepared. Such assumptions must have a "reasonable basis"² and be supportable by appropriate evidence.
- (k) Corporate Transaction 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. It includes fundraisings³, takeovers, and schemes of arrangement.

² See RG 170 *Prospective Financial Information* issued by Australian Securities and Investments Commission (ASIC) which applies to prospective financial information included, or to be included in a public document issued in Australia.

³ See Section 700 of the *Corporations Act 2001*.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (l) Disclosure Document means a disclosure document as defined in the *Corporations Act 2001*.
- (m) Engaging party means the body or person(s) that required the services of the assurance practitioner for an assurance engagement in connection with a proposed corporate transaction, or the examination of prospective financial information. The engaging party is ordinarily the responsible party, as defined in paragraph (oo) of this ASAE.
- (n) 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.
- (o) Event(s) or transaction(s) means underlying event(s) or transaction(s) that:
- (i) is (are) primarily the subject of the public document,⁴ or other document; and/or
 - (ii) is (are) not the subject of the public document, or other document, but whose effect(s) impact the financial information.⁵
- (p) Financial information means financial information prepared by the responsible party included in, or to be included in the public document, or other document, in the form of either:
- (i) historical financial information; and/or
 - (ii) pro forma historical financial information; and/or
 - (iii) pro forma forecast financial information; and/or
 - (iv) prospective financial information.

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

⁴ For example, a proposed acquisition or divestment.

⁵ For example, a business unit sold by the entity prior to the acquisition of another entity, which is the subject of the public document

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (q) 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. Historical financial information may be in the form of:
- (i) a complete set of financial statements⁶ for a financial year that forms part of a financial report 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 statement⁷; or
 - (v) summary financial statements⁸ derived from, and materially consistent with, the audited or reviewed financial report; or

⁶ 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.

⁷ 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.

⁸ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (vi) a set of financial statements prepared in accordance with a financial reporting framework.⁹
- (r) 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.
- (s) Information inconsistency means information within the public document, or other document, that contradicts the financial information the subject of the assurance report.
- (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. Its purpose is to assist investors and other interested third parties in making an informed evaluation of the recent financial performance, financial position, and/or prospects of the entity (where forecast financial information is part of the public document).
- (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, as the basis for a negative form of expression of the assurance practitioner's conclusion. 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).¹⁰

⁹ 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.

¹⁰ See the ASX website at <http://www.asx.com.au> for a complete set of the ASX Listing Rules.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (w) Management means the person(s) with executive responsibility for the conduct of the operations of the entity or individual business units. 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 information, that if certain financial information is omitted, misstated or not disclosed, that information has the potential to affect decisions of users of the public document, or other document, or the discharge of accountability by the responsible party of the entity.
- (y) Materially inconsistent means information prepared by the responsible party as part of the corporate transaction that is inconsistent with the recognition and/or measurement basis of that financial information that is the subject of the assurance report.
- (z) Misstatement of fact means information that is incorrectly stated or presented in the public document, or other document. A material misstatement of fact may undermine the credibility of financial information that is the subject of the assurance report.
- (aa) Other document means a document provided to internal or external parties in relation to a proposed corporate transaction, or prospective financial information, which is not included in, or in connection with a public document.
- (bb) Other information means information of a financial or non-financial nature included in a public document, or other document, that is not the subject of the assurance report.
- (cc) Prepared in accordance with the applicable financial reporting framework means the financial information included in the public document, or other 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.
- (dd) 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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

connection with a proposed corporate transaction, or prospective financial information, prepared by a third party, for distribution to intended users.

- (ee) Pro forma adjustments means adjustments made with a reasonable basis and supported by evidence, which are applied to the base financial information to enable the preparation of pro forma financial information, including, but not limited to:
- (i) adjustments to reflect the effect(s) of the event(s) or transaction(s) on the base financial information;
 - (ii) adjustments needed to make the basis of preparation of financial information of an entity being acquired consistent with the accounting policies of the acquiring entity;
 - (iii) adjustments to eliminate the effects of unusual or non-recurring transactions that are not part of the normal operations of the entity;
 - (iv) adjustments to reflect a transaction (other than the underlying transaction that is the subject of the public document, or other document,) that occurred part way through the period covered by the financial information (for example, an acquisition of a business part way through the period);
 - (v) other adjustments to allow for a “like-for-like” comparison across time periods; and
 - (vi) adjustments to reflect post financial reporting period end transactions.
- (ff) Pro forma financial information means base financial information adjusted to illustrate the effects of pro forma adjustments, assuming that these event(s) or transaction(s) had occurred at an earlier date, a later date, or not at all. Pro forma financial information is ordinarily presented in a columnar or tabular format consisting of base financial information, pro forma adjustments, and resulting pro forma financial information.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (i) Pro forma financial information may be in the form of either pro forma historical financial information or a pro forma forecast:
- ◆ Pro forma historical financial information has base financial information that is historical in nature, adjusted for pro forma adjustments.¹¹
 - ◆ Pro forma forecast financial information has base financial information that is either forecast in nature; or a mix of historical financial information and forecast financial information, adjusted for pro forma adjustments.¹²¹³

Pro forma financial information is prepared on a stated basis of preparation by the responsible party.

- (gg) Process to compile financial information means the process undertaken by the responsible party to gather, classify, and summarise relevant financial information. Such a process includes identifying the source of unadjusted financial information to be used, extracting such information, making pro forma adjustments consistent with the purpose of the financial information, and aggregating the financial information. The resultant financial information is commonly referred to as either aggregated or compiled financial information.

¹¹ 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.

¹² 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.

¹³ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (hh) 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. It is ordinarily presented in numeric terms, but may also be in the form of a quantifiable statement, such as the earnings per share accretion expected from particular transactions.

Prospective financial information may be in the form of a best-estimate forecast, a pro forma forecast, or a projection:

- (i) Best-estimate forecast means prospective financial information prepared on the basis of best-estimate assumptions as to future events, which the responsible party expects to take place on the dates described, and the actions the responsible party expects to take as of the date the financial information is prepared. Given that the responsible party reports and measures actual results against this forecast, it is commonly referred to as a “statutory forecast.”
- (ii) Pro forma forecast - see definition at paragraph (ff).
- (iii) Projection¹⁴ means prospective financial information prepared on the basis of:
- ◆ Hypothetical assumptions; or
 - ◆ A mixture of best-estimate assumptions that the responsible party expects to take place; and hypothetical assumptions.

¹⁴ 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 materially supported by hypothetical assumptions is unlikely to have reasonable grounds and as such is ordinarily not permitted to be included in a public document.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (ii) Public document means a disclosure document or other documentation provided to shareholders, unit holders, security holders or holders of a relevant interest in the entity (or which is provided to management of the entity) in relation to a proposed corporate transaction.
- (i) When an offer of securities needs disclosure to investors,¹⁵ the entity may use the following types 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*.¹⁶
 - ◆ 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.¹⁷ Investors are entitled to receive a copy of the materials that have been lodged with ASIC if they request them.
- (jj) Profile Statement is a brief statement that may be sent out with offers, with ASIC's approval, instead of a prospectus.¹⁸ 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.
- (kk) Offer Information Statement is a document that may be used instead of a prospectus if it meets the criteria under the *Corporations Act 2001*.¹⁹ It may also be referred to as a scheme document.

¹⁵ See Section 706 of the *Corporations Act 2001*.

¹⁶ See Sections 710, 711, and 713 of the *Corporations Act 2001*.

¹⁷ See Section 712 of the *Corporations Act 2001*.

¹⁸ See Sections 705 and 721 of the *Corporations Act 2001*.

¹⁹ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (ll) Product Statement (PDS) is a document used in fundraisings where the entity is a trust or other type of managed investment scheme.
- (mm) 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.
- (nn) 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;
 - (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.
- (oo) 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 public document, or other 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 (m) of this ASAE.
- (pp) 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.²⁰
- (qq) Scheme of arrangement means an arrangement undertaken in accordance with Part 5.1 of the *Corporations Act 2001*.

²⁰ See *Corporations Act 2001*, section 92(3).

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (rr) Subsequent events means events occurring between the date of the assurance practitioner's work on the financial information being completed and 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".
- (ss) Stated basis of preparation means the recognition and measurement basis on which pro forma financial information has been prepared
- (tt) 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 responsible party of the financial information); banks and other financial institutions.
- (uu) 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.
- (vv) 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 102.²¹

Quality Control

14. The assurance practitioner shall establish and maintain a system of quality control in accordance with ASQC 1.²²

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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Inability to Comply with the Requirements of this ASAE

15. Where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the assurance practitioner from complying with an essential procedure contained within a relevant requirement²³ 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.
16. 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

17. The assurance practitioner shall accept an assurance engagement in respect of reporting on historical financial information only if:
(Ref: Para. A5-A10)
- (a) the responsibility for the preparation of the financial information that is to be the subject of the assurance report

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

²³ 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 proposed corporate transaction.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- is the responsibility of a party other than the assurance practitioner, or its intended users;
- (b) if the assurance practitioner obtains the written agreement of the responsible party that it acknowledges, understands, and accepts its responsibility for:
- (i) preparing the financial information;
 - (ii) preparing the public document²⁴, or other document;
 - (iii) where applicable to the assurance engagement:
 - ◆ selecting, developing, and disclosing, the applicable criteria used, and the presentation of the financial information;
 - ◆ preparing the financial information in accordance with the applicable criteria;
 - (iv) such internal control as the responsible party determines is necessary to properly prepare the financial information; and
- (c) providing the assurance practitioner with:
- (i) access to all information, such as records, documentation and other matters relevant to the financial information;
 - (ii) access to the whole public document, or other document;
 - (iii) any additional information that the assurance practitioner may request from those charged with governance, management, or their experts for the purpose of the engagement; and
- (d) unrestricted access to those within the entity from whom the assurance practitioner determines it necessary to obtain

²⁴ 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).

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- evidence, including where appropriate, the responsible party's third party experts;
- (e) on the basis of preliminary knowledge of the assurance engagement circumstances, nothing has come to the assurance practitioner's attention to indicate that the requirements of the relevant ethical principles described in ASA 102, will not be satisfied;
 - (f) the assurance practitioner is satisfied that those persons who are to perform the assurance engagement possess the necessary professional competencies; and
 - (g) the assurance practitioner believes that the assurance report will be used for its intended purpose.
18. The assurance practitioner should perform any non-assurance services in connection with the assurance engagement in accordance with relevant ethical requirements and applicable professional standards;²⁵ having particular regard to independence.

Agreeing on the Terms of the Assurance Engagement

19. The assurance practitioner shall agree the terms of the assurance engagement in writing with the responsible party.
20. When the assurance engagement is undertaken pursuant to legislation, the assurance engagement terms shall include those contained in the legislation. (Ref: Para. A13)
21. The agreed terms of the assurance engagement shall include:
(Ref: Para. A14)
- (a) the objective and scope of the assurance engagement, including:
 - (i) the nature, source, purpose and time period covered by the financial information to be included in the public document, or other document, as appropriate;

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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (ii) a statement that the assurance practitioner will perform and report the results of the assurance engagement in accordance with this ASAE; and
- (iii) the type of assurance (limited or reasonable assurance) that the assurance practitioner is expected to provide for the financial information;
- (b) a summary of assurance procedures to be performed by the assurance practitioner during the engagement;
- (c) the responsibilities of the assurance practitioner, including:
 - (i) performing assurance procedures on the financial information to enable them to determine whether it has been prepared in accordance with the applicable criteria;
 - (ii) issuing a written assurance report, and whether it will be included in a public document, or other document; and
 - (iii) compliance with relevant ethical requirements, including independence;
- (d) a statement indicating that the assurance practitioner is not responsible for the preparation of any financial information to which the assurance report will relate;
- (e) the responsibilities of the responsible party;
- (f) where applicable, the process for the assurance practitioner providing consent to the responsible party for including the assurance practitioner's name and assurance report in a public document, or other document; and
- (g) other such 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

22. Where the responsible party requests the assurance practitioner to change the nature or terms of the assurance engagement before the completion of the assurance engagement, the assurance practitioner

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

shall consider the appropriateness of the request and shall not agree to a change without reasonable justification.
(Ref: Para. A16-A17)

23. The assurance practitioner shall agree any new terms with the responsible party in writing.
24. The assurance practitioner shall not disregard evidence obtained prior to an agreed change of terms in the conduct of the assurance engagement.

Planning the Assurance Engagement

25. The assurance practitioner shall plan the assurance engagement in accordance with:
 - (a) ASRE 2405, for reviews of historical financial information; and
 - (b) this ASAE, for other assurance engagement work performed on the financial information. (Ref: Para. A18-A19)

Nature and Extent of Planning Activities

26. When determining the nature, timing, and extent of procedures for examining the financial information, the assurance practitioners' considerations shall include: (Ref: Para. A19-A23)
 - (a) the agreed terms of engagement;
 - (b) the nature of the entity; including where it is established or in a start-up phase
 - (c) any previous dealings with the entity, including whether the assurance practitioner has audited or reviewed the entity's financial report(s) in prior period(s);
 - (d) the nature, characteristics, time period covered, and intended use of the financial information, and its basis of preparation of the financial information;
 - (e) obtaining an understanding of the underlying event(s) or transaction(s) in respect of which the historical financial information is being prepared;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (f) the assurance practitioner's understanding of the entity, its business and operations, and its environment, including the risks that the financial information included in the public document, or other document, may be materially misstated.
- (g) the reliability of the source of the underlying data; and
- (h) whether the use of an expert(s) is/are required.

Materiality

27. The assurance practitioner shall consider materiality when planning and performing the assurance engagement in accordance with this ASAE.²⁶ (Ref: Para. A24-A25)

Assurance Engagement Risk

28. The assurance practitioner shall consider assurance engagement risk when planning the assurance engagement in order to reduce such risk to an acceptable level, as appropriate in the circumstances of the engagement. (Ref: Para. A26-A27)

Assessment of the Suitability of Applicable Criteria

29. The assurance practitioner shall consider, based on preliminary knowledge, whether the applicable criteria used in the preparation of the financial information is not misleading for its intended purpose. (Ref: Para. A28)

Reliance on the work of another Assurance Practitioner

30. In the conduct of the engagement, if the assurance practitioner intends to place reliance²⁷ on financial information that has been audited or reviewed by another assurance practitioner, the assurance practitioner shall: (Ref: Para. A29-A30)
- (a) consider the scope, professional competence, work performed and conclusion expressed by the other assurance practitioner; and

²⁶ 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 transaction engagements.

²⁷ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (b) determine whether there is a need to perform additional procedures on the financial information;
- (c) where the other assurance practitioner's opinion was modified, determine the implications for the assurance engagement;
 - (i) consider the assurance practitioner's ability to undertake the engagement in accordance with the agreed terms; and
 - (ii) consider the potential impact, if any, on the assurance report.

Procedures and Evidence

- 31. The assurance practitioner shall design and perform procedures in order to obtain sufficient appropriate evidence on which to base an assurance conclusion on the financial information. (Ref: Para. A36)
- 32. The assurance practitioner shall design and perform review procedures on historical financial information in accordance with ASRE 2405. (Ref: Para. A38)

Using the Work of an Expert

- 33. When using the work of an expert, which may be the entity's expert or the assurance practitioner's, the assurance practitioner shall be satisfied that the nature, timing and extent of the expert's work is adequate for the purposes of the assurance engagement, and in accordance with applicable AUASB Standards.²⁸
(Ref: Para. A37)

²⁸ 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*.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Evaluating the Sufficiency and Appropriateness of Evidence Obtained

34. The assurance practitioner shall evaluate whether they have obtained sufficient appropriate evidence on which to express an assurance conclusion on the financial information.²⁹ (Ref: Para. A55)

Other Information

Material Inconsistencies

35. The assurance practitioner shall request from the responsible party a copy of the entire public document or other document prepared in connection with the financial information, and read the other information included in it, including information which is not the subject of the assurance engagement, to consider whether the public document, or other document, as a whole, is materially consistent with the financial information. (Ref: Para. A32)
36. If, on reading the other information, the assurance practitioner identifies a material inconsistency between the other information and the financial information, the assurance practitioner shall discuss such inconsistency with the responsible party and determine whether the financial information and/or the other information needs to be revised.
37. If the assurance practitioner considers that revision of the financial information under examination, or other information is necessary, and the responsible party refuses to make the revision, the assurance practitioner shall determine the implications for the assurance engagement and the assurance report. (Ref: Para. A33)
38. Where revisions to the public document, or other document, are made as a result of material inconsistencies identified by the assurance practitioner, the assurance practitioner shall request an updated copy of the whole public document, or other document, in order to ensure that such changes are materially consistent with the financial information.

Material Misstatements of Fact

39. If, on reading the other information for the purpose of identifying material inconsistencies, the assurance practitioner becomes aware

²⁹ 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 transaction engagements.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

of an apparent material misstatement of fact, the assurance practitioner shall discuss the matter with the responsible party. (Ref: Para. A58)

40. If, following such discussions, the assurance practitioner still considers that there is an apparent material misstatement of fact, the assurance practitioner shall request the responsible party to consult with an appropriate third party expert, such as the entity's legal counsel to resolve the issue. The assurance practitioner shall request to be informed of the advice received by the responsible party and shall consider its implications for the assurance engagement and the assurance report.
41. If the assurance practitioner concludes that there is a material misstatement of fact in the other information, which the responsible party refuses to correct, the assurance practitioner shall take further appropriate action, including considering the implications for the type of conclusion expressed in the assurance report. (Ref: Para. A59)

Communications with the Responsible Party

42. When, as a result of performing the examination of the financial information, 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 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. A60)
43. When, in the assurance practitioner's judgment, the responsible party does not respond appropriately to the assurance practitioner's communication within a reasonable time, the assurance practitioner shall consider the implications on the assurance report. (Ref: Para. A61)

Going Concern Considerations

44. The assurance practitioner shall determine, in their engagement circumstances, if going concern considerations of the entity are relevant to their assurance engagement. (Ref: Para. A62)
45. Where going concern considerations are relevant to the assurance engagement, the assurance practitioner shall consider these in

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

accordance with applicable Accounting Standards.³⁰ If the assurance practitioner believes that the entity is not a going concern, the assurance practitioner shall consider the implications for the assurance engagement and the assurance report. (Ref: Para. A63-A64)

Consideration of Events Up to the Date of the assurance report

46. The assurance practitioner shall consider the effect on the financial information, of events, transactions, or errors which they become aware of that may materially impact the financial information up to and including the date of the assurance report. (Ref: Para. A65)
47. The assurance practitioner shall discuss with the responsible party any such event(s) and/or transaction(s) identified under paragraph 46 of this ASAE, with a view to concluding as to whether their effect on the financial information is material and needs to be reflected in:
- (a) the financial information included in the public document, or other document; and/or
 - (b) the assurance report.

Consideration of Events Identified After the Date of assurance report

48. If the assurance practitioner becomes aware of events, transactions or errors after the date of the issue of the assurance report and before the relevant date (“subsequent events”), that may materially impact the financial information, the assurance practitioner shall:
(Ref: Para. A66)
- (a) discuss such events and/or transactions with the responsible party; and
 - (b) consider what further action is appropriate in the circumstances of the engagement.
49. The assurance practitioner shall revoke their consent to include the assurance report in the public document, or other document, if the matter related to subsequent events is not, in the assurance practitioners’ judgement, appropriately addressed by the responsible party. (Ref: Para. A67)

³⁰ The concepts and discussions on the going concern assessment relevant to an audit engagement are contained in AASB 101 *Presentation of Financial Statements*, paragraphs 25-26, and may be helpful in performing a going concern assessment in an assurance engagement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Written Representations

50. The assurance practitioner shall request a written representation letter from the responsible party, addressed to the assurance practitioner. The date of the representation letter shall be as near as practicable to, but not after, the date of the assurance report.
(Ref: Para. A68-A71)
51. Where the assurance practitioner has not already received representations from the responsible party covering its acceptance of responsibility for the following matters, these shall be requested to be included in the written representation letter: (Ref: Para A71)
- (a) preparing and disclosing the financial information in the public document, or other document;
 - (b) the intended use of the financial information;
 - (c) selecting, developing, applying, and disclosing, the applicable criteria used in the preparation and presentation of the financial information;
 - (d) determining the applicable time periods for which the financial information is to be disclosed;
 - (e) ensuring that the financial information has been prepared in accordance with the applicable criteria as set out in the public document, or other document;
 - (f) providing the assurance practitioner with all relevant information and access to all records, documentation and sources of information necessary for the completion of the assurance engagement;
 - (g) providing the assurance practitioner with a listing of all immaterial required adjustments, or known uncorrected misstatements, in the financial information; together with an acknowledgement that they are responsible for concluding that such adjustments are immaterial; and
 - (h) advising the assurance practitioner of any matter, event or issue that has arisen and/or been discovered subsequent to the preparation of the financial information that may impact or require adjustment to the financial information.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

52. The responsibilities of the responsible party shall be described in the written representations in the manner in which they are described in the agreed terms of the assurance engagement.
53. The assurance practitioner shall obtain such other written representations from the responsible party, which the assurance practitioner determines appropriate in the circumstances of the assurance engagement.
54. If the responsible party is unable to, or does not provide the required written representation letter, the assurance practitioner shall evaluate its implications for the engagement, and on the assurance report.
(Ref: Para. A72)

Concluding on the Engagement

55. The assurance practitioner shall conclude on whether the evidence obtained enables them to express an assurance conclusion on the financial information. (Ref: Para. A74)
56. The assurance practitioner shall form a conclusion, based on the evidence obtained through the work performed, as to whether anything has come to their attention that causes the assurance practitioner to believe that the financial information is not prepared, in all material respects, in accordance with the applicable criteria.

Types of Conclusion in an Assurance Report

57. The assurance practitioner shall express either:
- (a) an unmodified limited assurance conclusion in the assurance report when the assurance practitioner concludes that nothing has come to their attention that causes the assurance practitioner to believe that the financial information is not prepared in all material respects, in accordance with the applicable criteria. (Ref: Para. A75)
 - (b) an unmodified reasonable assurance conclusion in the assurance report when the assurance practitioner concludes that the financial information is not prepared in all material respects, in accordance with the applicable criteria.
(Ref: Para. A75)

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

58. The assurance practitioner shall express a modified conclusion in the assurance report in circumstances described in paragraphs 59-63 of this ASAE.

Modifications to the Conclusion in the Assurance Report (Ref: Para. A76-A78)

59. The assurance practitioner shall qualify the limited assurance conclusion in the assurance report when matters have come to the assurance practitioner's attention that cause the assurance practitioner to believe that the financial information is not prepared, in all material respects, in accordance with the applicable criteria.

60. When the effects of the matters that have come to the assurance practitioner's attention are so material and pervasive to the financial information that the assurance practitioner concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the financial information, the assurance practitioner shall express an adverse conclusion that the financial information is not prepared fairly, in all material respects, in accordance with the applicable criteria.

61. If the assurance practitioner determines there has been a material scope limitation, the assurance practitioner shall express a qualification of the conclusion regarding the possible adjustments to the financial information that might have been determined to be necessary had the limitation not existed.

62. The assurance practitioner shall issue a disclaimer of conclusion:

- (a) 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; or
- (b) 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 financial information not to be properly prepared, could be material and pervasive.

63. If the assurance practitioner concludes, that there is a material uncertainty related to events or conditions that individually or collectively may cast significant doubt on the entity's ability to

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

continue as a going concern, the assurance practitioner shall discuss this material uncertainty with the responsible party, and:

- (a) in the event that the responsible party does not make appropriate changes in the public document, or other document, the assurance practitioner shall express a qualified or adverse conclusion, as appropriate, in the assurance report; or
- (b) where appropriate changes are made in the public document, or other document, the assurance practitioner shall include an Emphasis of Matter Paragraph in the assurance report.

Reporting on the Engagement

64. The assurance practitioner shall provide a written assurance report to the responsible party containing a clear expression of the assurance practitioner's conclusion about the financial information included in the public document, or other document. (Ref: Para. A83)

Basic Elements of the Assurance Report

65. The assurance report shall include the following basic elements:
(Ref: Para. A84-A86)
- (a) a title;
 - (b) the addressee;
 - (c) a scope/background section that:
 - (i) identifies the purpose of the report;
 - (ii) identifies the financial information being reported on, and refers to the section of the public document, or other document, that outlines the applicable criteria and basis of preparation of the financial information;
 - (iii) acknowledges that the responsible party is responsible for the preparation of financial information being reported on by the assurance practitioner;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (iv) the period covered by the financial information;
 - (v) a reference to the applicable criteria and the source of the criteria;
 - (vi) states that the assurance report has been prepared either for:
 - ◆ for inclusion in a public document; or
 - ◆ for inclusion in another document related to a proposed corporate transaction or the examination of prospective financial information; and, accordingly, is not suitable for any other purpose.
 - (vii) defines the responsibilities of the assurance practitioner;
 - (viii) indicates that the examination of the financial information has been conducted in accordance with the Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*; and
 - (ix) defines the responsibilities of the responsible party in relation to the financial information;
- (d) a separate section expressing the assurance practitioner's conclusion on the financial information covered by the assurance engagement:
- (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 financial information is not prepared in all material respects, in accordance with the applicable criteria; or
 - (ii) for modified conclusions, the assurance report shall draw attention to these matters in a separate

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

clearly identified section describing the modification;

- (e) where applicable, a separate section titled “Other Matters”, or other appropriate title, that describes a material inconsistency between the financial information and other information included in the public document, or other document;
- (f) an independence, or disclosure of interest, statement;
- (g) the assurance practitioner’s signature;
- (h) the assurance practitioner’s address; and
- (i) the date of the report.

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

- 66. The assurance practitioner shall consider applicable law or regulation in providing consent in writing to the inclusion of the assurance report in a public document, or other document.
- 67. Where the assurance practitioner considers it inappropriate for the assurance report to be included in the public document, or other document, consent shall not be provided or can be revoked prior to the relevant date. (Ref: Para. A92-A93)

Documentation

- 68. The assurance practitioner shall prepare documentation, on a timely basis, of all matters that provides sufficient appropriate evidence to support: (Ref: Para. A94-A95)
 - (a) the conclusion(s) expressed in the assurance report; and
 - (b) that the assurance engagement was performed in accordance with this ASAE.

Pro Forma Historical Financial Information

Assurance Engagement Acceptance

Preconditions for Acceptance

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

69. In addition to the requirements in paragraph 17 of this ASAE, the assurance practitioner shall only accept the engagement if the:
- (a) the assurance practitioner obtains the written agreement of the responsible party that it acknowledges, understands, and accepts its responsibility for:
 - (i) preparing the base historical financial information;
 - (ii) selecting, developing, and disclosing the applicable criteria to be used, and the presentation of the financial information; and
 - (iii) confirming all pro forma adjustments made are historical in nature, and will be made on the basis of the applicable criteria.

Agreeing on the Terms of the Assurance Engagement

70. In addition to the requirements in paragraph 21(a)(iii) of this ASAE, the agreed terms of the assurance engagement shall specify that the assurance practitioner will provide limited assurance on the pro forma historical financial information.
71. Where the engagement is in respect of pro forma historical financial information, the agreed terms of the engagement shall include that the assurance practitioner is responsible for performing assurance procedures on the financial information to enable the assurance practitioner to determine whether it has been prepared in accordance with the stated basis of preparation. (Ref: Para. A64)
72. The assurance practitioner shall consider, in determining the nature, timing, and extent of procedures planned, whether the stated basis of preparation of the pro forma financial information, at a minimum, indicates: (Ref: Para. A31-A32)
- (a) the base financial information has been extracted from an appropriate source;
 - (b) whether the base financial information has been previously audited or reviewed, and what type of opinion was issued;
 - (c) the pro forma adjustments are:
 - (i) historical in nature;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (ii) attributable to the underlying event(s) or transaction(s);
 - (iii) supportable by a reasonable basis;
 - (iv) consistent with the entity's accounting policies under its applicable financial reporting framework; and
- (d) whether the stated basis of preparation for the pro forma financial information is not misleading for its intended purpose.
73. The assurance practitioner shall consider, in determining the nature, timing, and extent of procedures planned, whether the stated basis of preparation of the pro forma financial information, at a minimum, indicates: (Ref: Para. A66)
- (a) the base financial information has been extracted from an appropriate source;
 - (b) whether the base financial information has been previously audited or reviewed, and what type of opinion was issued;
 - (c) the pro forma adjustments are:
 - (i) attributable to the underlying event(s) or transaction(s);
 - (ii) supportable by a reasonable basis;
 - (iii) consistent with the entity's accounting policies under its applicable financial reporting framework; and
 - (d) whether the stated basis of preparation for the pro forma financial is not misleading for its intended purpose.

Procedures and Evidence

74. In addition to the requirements in paragraphs 31 of this ASAE, the assurance practitioner shall determine whether the pro forma adjustments made to pro forma historical financial information are: (Ref: Para. A66)

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (a) consistent with the stated basis of preparation of the pro forma financial information and with the entity's accounting policies;
 - (b) attributable to the underlying event or transaction and has a reasonable basis; and
 - (c) mathematically correct.
75. The assurance practitioner shall determine whether the financial information reflects the results of the pro forma adjustments made to the base historical financial information.
76. In cases where the responsible party has identified that an adjustment is necessary to accurately reflect the effects of the transactions, or events for which the pro forma adjustments are being made, but has not made such adjustment, the assurance practitioner shall consider the effect of the omitted adjustment on the pro forma financial information, and determine whether the omitted adjustment causes it to be misleading.
77. If the assurance practitioner concludes that an omitted adjustment causes the pro forma financial information to be misleading, the assurance practitioner shall discuss the matter with the responsible party. If the adjustment is not made, the assurance practitioner shall consider the implications for the assurance report.

Written Representations

78. In addition to the requirements in paragraph 51 of this ASAE, the assurance practitioner shall request the responsible party to include in the written representation letter confirmation that the pro forma financial information has been prepared in accordance with the basis of preparation as set out in the public document, or other document,. (Ref: Para A71)

Concluding on the Engagement

79. The assurance practitioner shall form a conclusion, based on the evidence obtained through the work performed, as to whether anything has come to their attention that causes the assurance practitioner to believe that the pro forma financial information is not prepared, in all material respects, in accordance with the stated basis of preparation.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

Types of Conclusion in an Assurance Report

80. The assurance practitioner shall express either:
- (a) an unmodified limited assurance conclusion in the assurance report when the assurance practitioner concludes that nothing has come to their attention that causes the assurance practitioner to believe that the financial information is not prepared in all material respects, in accordance with the stated basis of preparation; or (Ref: Para. A75)
 - (b) a modified conclusion in the assurance report in circumstances described in paragraphs 59-63 of this ASAE.

Assurance Report

81. In addition to the requirement in paragraph 6545 of this ASAE, the assurance report shall include:
- (a) An introductory paragraph that identifies:
 - (i) the source of the historical financial information used as the starting point of the pro forma financial information, and a statement as to whether such financial information has been previously audited or reviewed; and
 - (ii) the relevant disclosures in the public document, or other document, that explain the basis of preparation of the pro forma financial information;
 - (b) A description of the assurance practitioner's responsibilities, including a statement that:
 - (i) the assurance practitioner's responsibility is to form a conclusion as to whether the pro forma financial information has been prepared in accordance with the stated basis of preparation; and
 - (ii) the assurance engagement did not include:
 - ◆ an audit of the pro forma historical financial information; or

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- ◆ updating any previously audited or reviewed financial information that may have been used in the preparation of the pro forma financial information;
- (c) The assurance practitioner's conclusion as to whether the pro forma financial information has been properly prepared in accordance with the stated basis of preparation.

Pro forma Forecast and Forecast Financial Information

Assurance Engagement Acceptance

Preconditions for Acceptance

82. In addition to the requirements in paragraph 17 of this ASAE, the assurance practitioner shall only accept the engagement if the assurance practitioner obtains the written agreement of the responsible party that it acknowledges, understands, and accepts its responsibility for:
- (a) preparing the base financial information, which is either historical in nature, or a mix of historical and forecast;
 - (b) selecting, developing, and disclosing the applicable criteria used in the selection of the pro forma adjustments made; and
 - (c) the selection of pro forma adjustments to be made to the base financial information, on the basis of the applicable criteria.

Agreeing on the Terms of the Assurance Engagement

83. In addition to the requirements in paragraph 21 of this ASAE, the agreed terms of the assurance engagement shall include the assurance practitioner will provide a limited on the financial information. (Ref: Para. A14)
84. In addition to the requirement in paragraph 21 of this ASAE, the responsibilities of the assurance practitioner include performing assurance procedures on the financial information to enable the assurance practitioner to determine whether it has been prepared in accordance with the stated basis of preparation.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

Planning the Assurance Engagement

85. The assurance practitioner shall plan the assurance engagement in accordance with:
- (a) ASRE 2405, for reviews of base financial information that includes historical financial information;
 - (b) ASAE 3000, for examination of base financial information and pro forma adjustments that include forecast financial information; and
 - (c) this ASAE, for other assurance engagement work performed on the financial information. (Ref: Para. A18-A19)
86. The assurance practitioner shall obtain an understanding of the underlying event(s) or transaction(s) in respect of which the pro forma financial information is being prepared. (Ref: Para. A30)
87. The assurance practitioner shall consider, in determining the nature, timing, and extent of procedures planned, whether the stated basis of preparation of the pro forma financial information, at a minimum, indicates: (Ref: Para. A31-A32)
- (a) the base financial information has been extracted from an appropriate source;
 - (b) whether base financial information has been previously audited or reviewed, and the resultant opinion type issued;
 - (c) the pro forma adjustments are:
 - (i) attributable to the underlying event(s) or transaction(s);
 - (ii) supportable by a reasonable basis;
 - (iii) consistent with the entity's accounting policies under its applicable financial reporting framework; and
 - (d) whether the stated basis of preparation for the pro forma financial information is not misleading for its intended purpose.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Procedures and Evidence

88. The assurance practitioner shall design and perform review procedures on the pro forma forecast financial information in accordance with ASAE 3000.
89. The assurance practitioner shall obtain sufficient appropriate evidence as to whether: (Ref: Para. A42-A49)
- (a) the responsible party's best-estimate pro forma assumptions on which the pro forma forecast is based are reasonable; and
 - (b) where applicable, the pro forma forecast is prepared on a basis that is appropriate in the circumstances and consistent with that of the pro forma historical financial information.
90. The assurance practitioner shall consider the reasonableness and appropriateness of the time period covered by the pro forma forecast.

Written Representations

91. In addition to the requirement in paragraph 51 of this ASAE, the assurance practitioner shall request the following matters to be included in the written representation letter: (Ref: Para A71)
- (a) the completeness of the material best-estimate assumptions used in the preparation of the pro forma forecast financial information; and
 - (b) for determining that all best-estimate assumptions used in the preparation of the pro forma forecast financial information have reasonable grounds.

Concluding on the Engagement

92. The assurance practitioner shall form a conclusion, based on the evidence obtained through the work performed, as to whether anything has come to their attention that causes the assurance practitioner to believe that the financial information is not prepared, in all material respects, in accordance with the stated basis of preparation.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

Types of Conclusion in an Assurance Report

93. The assurance practitioner shall express either:
- (a) an unmodified limited assurance conclusion in the assurance report when the assurance practitioner concludes that nothing has come to their attention that causes the assurance practitioner to believe that the financial information is not prepared in all material respects, in accordance with the stated basis of preparation; or (Ref: Para. A75)
 - (b) a modified conclusion in the assurance report in circumstances described in paragraph 57 of this ASAE.

Reporting on the Engagement

Basic Elements of the Assurance Report

94. In addition to the requirement in paragraph 65 of this ASAE, the assurance report on pro forma financial information, shall include:
- (a) An introductory paragraph that identifies:
 - (i) the source of the financial information used as the basis of the pro forma financial information, including whether it is forecast financial information or a mixture of historical and forecast financial information,
 - (ii) a statement as to whether the source financial information has been previously audited or reviewed; and
 - (iii) the relevant disclosures in the public document, or other document, that explain the basis of preparation of the pro forma financial information;
 - (b) A description of the assurance practitioner's responsibilities, including a statement that:
 - (i) the assurance practitioner's responsibility is to form a conclusion as to whether the pro forma financial information has been prepared in

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

accordance with the stated basis of preparation;
and

(ii) the engagement did not include:

- ◆ an audit of the pro forma forecast or forecast financial information; or
- ◆ updating any previously audited or reviewed financial information that may have been used in the preparation of the pro forma financial information.

(c) The assurance practitioner's conclusion as to whether the pro forma financial information has been properly prepared in accordance with the stated basis of preparation.

Aggregated financial information

Assurance Engagement Acceptance

Preconditions for Acceptance

95. The assurance practitioner shall accept the assurance engagement only if: (Ref: Para. A5-A10)
- (a) the responsibility for the aggregation of the financial information that is to be the subject of the assurance report is the responsibility of a party other than the assurance practitioner, or its intended users;
 - (b) the responsible party accepts that the assurance practitioner has no responsibility for the underlying financial information that is the subject of the aggregation;
 - (c) on the basis of preliminary knowledge of the assurance engagement circumstances, nothing has come to the assurance practitioner's attention to indicate that the requirements of the relevant ethical principles described in ASA 102, will not be satisfied;
 - (d) the assurance practitioner is satisfied that those persons who are to perform the assurance engagement possess the necessary professional competencies;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (e) the assurance practitioner believes that the assurance report will be used for its intended purpose;
 - (f) if the assurance practitioner obtains the written agreement of the responsible party that it acknowledges, understands, and accepts its responsibility for:
 - (i) selecting the financial information to be aggregated, and the underlying basis of its preparation, together with material assumptions used in its preparation;
 - (ii) aggregating the financial information on the basis of material assumptions;
 - (iii) preparing the public document³¹, or other document;
 - (iv) such internal control as the responsible party determines is necessary to properly aggregate the financial information; and
 - (g) providing the assurance practitioner with:
 - (i) access to all information, such as records, documentation and other matters relevant to the compilation of the financial information;
 - (ii) access to the whole public document, or other document;
 - (iii) any additional information that the assurance practitioner may request from those charged with governance, management, or their experts for the purpose of the engagement; and
96. The assurance practitioner should perform any non-assurance services in connection with the assurance engagement in accordance

³¹ 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).

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

with relevant ethical requirements and applicable professional standards;³² having particular regard to independence.

Agreeing on the Terms of the Assurance Engagement

97. The assurance practitioner shall agree the terms of the assurance engagement in writing with the responsible party.
98. When the assurance engagement is undertaken pursuant to legislation, the assurance engagement terms shall include those contained in the legislation. (Ref: Para. A13)
99. The agreed terms of the assurance engagement shall include: (Ref: Para. A14)
- (a) the objective and scope of the assurance engagement, including:
 - (i) the nature, source, purpose and time period covered by the financial information to be included in the public document, or other document, as appropriate;
 - (ii) a statement that the assurance practitioner will perform and report the results of the assurance engagement in accordance with this ASAE; and
 - (iii) limited assurance will be provided by the assurance practitioner on the financial information.
 - (b) a summary of assurance procedures to be performed by the assurance practitioner during the engagement;
 - (c) the responsibilities of the assurance practitioner, including:
 - (i) performing assurance procedures on the aggregated financial information to enable them to determine whether it has been prepared in accordance with the applicable criteria;

³² See APES 110 *Code of Ethics for Professional Accountants*, (November 2009) issued by the Accounting Professional and Ethical Standards Board.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (ii) issuing a written assurance report, and whether it will be included in a public document, or other document; and
- (iii) compliance with relevant ethical requirements, including independence;
- (d) a statement indicating that the assurance practitioner is not responsible for the preparation of any financial information to which the assurance report will relate;
- (e) the responsibilities of the responsible party;
- (f) where applicable, the process for the assurance practitioner providing consent to the responsible party for including the assurance practitioner's name and assurance report in a public document, or other document; and
- (g) other such 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

- 100. Where the responsible party requests the assurance practitioner to change the nature or terms of the assurance engagement before the completion of the assurance engagement, the assurance practitioner shall consider the appropriateness of the request and shall not agree to a change without reasonable justification.
(Ref: Para. A16-A17)
- 101. The assurance practitioner shall agree any new terms with the responsible party in writing.
- 102. The assurance practitioner shall not disregard evidence obtained prior to an agreed change of terms in the conduct of the assurance engagement.

Planning the Assurance Engagement

- 103. The assurance practitioner shall plan the assurance engagement in accordance with this ASAE. (Ref: Para. A18-A19)

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

104. When determining the nature, timing, and extent of procedures for examining the aggregated financial information, the assurance practitioner's considerations shall include: (Ref: Para. A19-A23)
- (a) the agreed terms of engagement;
 - (b) any previous dealings with the entity;
 - (c) the nature of the financial information;
 - (d) the reliability of the source of the underlying data; and
 - (e) whether the use of an expert is required.

Materiality

105. The assurance practitioner shall consider materiality when planning and performing the assurance engagement in accordance with this ASAE.³³ (Ref: Para. A24-A25)

Assurance Engagement Risk

106. The assurance practitioner shall consider assurance engagement risk when planning the assurance engagement in order to reduce such risk to an acceptable level, as appropriate in the circumstances of the engagement. (Ref: Para. A26-A27)

Assessment of the Suitability of Applicable Criteria

107. The assurance practitioner shall consider, based on preliminary knowledge, whether the applicable criteria used in the aggregation of the financial information is not misleading for its intended purpose. (Ref: Para. A28)

Reliance on the work of another Assurance Practitioner

108. In the conduct of the engagement, if the assurance practitioner intends to place reliance³⁴ on financial information that has been

³³ 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 transaction engagements.

³⁴ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

audited or reviewed by another assurance practitioner, the assurance practitioner shall: (Ref: Para. A29-A30)

- (a) consider the scope, professional competence, work performed and conclusion expressed by the other assurance practitioner; and
- (b) determine whether there is a need to perform additional procedures on the base financial information;
- (c) where the other assurance practitioner's opinion was modified, determine the implications for the assurance engagement;
 - (i) consider the assurance practitioner's ability to undertake the engagement in accordance with the agreed terms; and
 - (ii) consider the potential impact, if any, on the assurance report.

109. The assurance practitioner shall obtain an understanding of: (Ref: Para. A34-A35)

- (a) the nature of financial information that has been aggregated by the responsible party; and
- (b) the entity's business operations, to assist in understanding the application of the responsible party's selected applicable criteria to the aggregated financial information.

Procedures and Evidence

110. The assurance practitioner shall determine:

- (a) whether the responsible party has appropriately extracted the financial information from the stated source;
- (b) if the stated source was previously audited or reviewed by another assurance practitioner, and if so whether a modified audit or review opinion was expressed; and
- (c) whether the calculations within the financial information are arithmetically accurate.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

111. If, on the basis of the procedures performed, the assurance practitioner concludes that the responsible party has:
- (a) used a source for the financial information that is not appropriate;
 - (b) omitted material information, pro forma adjustments or assumptions; or
 - (c) inappropriately included information, made inappropriate assumptions or inappropriately applied pro forma adjustments,

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 to resolve the matter, the assurance practitioner shall consider the implications for the assurance engagement and the assurance report. (Ref: Para. A54)

Evaluating the Sufficiency and Appropriateness of Evidence Obtained

112. The assurance practitioner shall evaluate whether they have obtained sufficient appropriate evidence on which to express an assurance conclusion on the financial information.³⁵ (Ref: Para. A55)

Other Information

Material Inconsistencies

113. The assurance practitioner shall request from the responsible party a copy of the entire public document or other document prepared in connection with the financial information, and read the other information included in it, including information which is not the subject of the assurance engagement, to consider whether the public document, or other document, as a whole, is materially consistent with the financial information. (Ref: Para. A56)
114. If, on reading the other information, the assurance practitioner identifies a material inconsistency between the other information and the financial information, the assurance practitioner shall discuss such inconsistency with the responsible party and determine whether

³⁵ 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 transaction engagements.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

the financial information and/or the other information needs to be revised. (Ref: Para. A57)

115. If the assurance practitioner considers that revision of the financial information under examination, or other information is necessary, and the responsible party refuses to make the revision, the assurance practitioner shall determine the implications for the assurance engagement and the assurance report.
116. Where revisions to the public document, or other document, are made as a result of material inconsistencies identified by the assurance practitioner, the assurance practitioner shall request an updated copy of the whole public document, or other document, in order to ensure that such changes are materially consistent with the financial information.

Material Misstatements of Fact

117. If, on reading the other information for the purpose of identifying material inconsistencies, the assurance practitioner becomes aware of an apparent material misstatement of fact, the assurance practitioner shall discuss the matter with the responsible party. (Ref: Para. A58)
118. If, following such discussions, the assurance practitioner still considers that there is an apparent material misstatement of fact, the assurance practitioner shall request the responsible party to consult with an appropriate third party expert, such as the entity's legal counsel to resolve the issue. The assurance practitioner shall request to be informed of the advice received by the responsible party and shall consider its implications for the assurance engagement and the assurance report.
119. If the assurance practitioner concludes that there is a material misstatement of fact in the other information, which the responsible party refuses to correct, the assurance practitioner shall take further appropriate action, including considering the implications for the type of conclusion expressed in the assurance report. (Ref: Para. A59)

Communications with the Responsible Party

120. When, as a result of performing the aggregation of the financial information, 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 aggregated financial information

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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. A60)

121. When, in the assurance practitioner's judgment, the responsible party does not respond appropriately to the assurance practitioner's communication within a reasonable time, the assurance practitioner shall consider the implications on the assurance report. (Ref: Para. A61)

Going Concern Considerations

122. The assurance practitioner shall determine, in their engagement circumstances, if going concern considerations of the entity are relevant to their assurance engagement. (Ref: Para. A62)
123. Where going concern considerations are relevant to the assurance engagement, the assurance practitioner shall consider these in accordance with applicable Accounting Standards.³⁶ If the assurance practitioner believes that the entity is not a going concern, the assurance practitioner shall consider the implications for the assurance engagement and the assurance report.
(Ref: Para. A63-A64)

Consideration of Events Up to the Date of the assurance report

124. The assurance practitioner shall consider the effect on the financial information, of events, transactions, or errors which they become aware of that may materially impact the aggregated financial information up to and including the date of the assurance report.
(Ref: Para. A65)
125. The assurance practitioner shall discuss with the responsible party any such event(s) and/or transaction(s) identified under paragraph 62 of this ASAE, with a view to concluding as to whether their effect on the financial information is material and needs to be reflected in:
- (a) the financial information included in the public document, or other document; and/or
 - (b) the assurance report.

³⁶ The concepts and discussions on the going concern assessment relevant to an audit engagement are contained in AASB 101 *Presentation of Financial Statements*, paragraphs 25-26, and may be helpful in performing a going concern assessment in an assurance engagement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Consideration of Events Identified After the Date of assurance report

126. If the assurance practitioner becomes aware of events, transactions or errors after the date of the issue of the assurance report and before the relevant date (“subsequent events”), that may materially impact the financial information, the assurance practitioner shall:
(Ref: Para. A66)
- (a) discuss such events and/or transactions with the responsible party; and
 - (b) consider what further action is appropriate in the circumstances of the engagement.
127. The assurance practitioner shall revoke their consent to include the assurance report in the public document, or other document, if the matter related to subsequent events is not, in the assurance practitioners’ judgement, appropriately addressed by the responsible party. (Ref: Para. A67)

Written Representations

128. The assurance practitioner shall request a written representation letter from the responsible party, addressed to the assurance practitioner. The date of the representation letter shall be as near as practicable to, but not after, the date of the assurance report.
(Ref: Para. A68-A71)
129. Where the assurance practitioner has not already received representations from the responsible party covering its acceptance of responsibility for the following matters, these shall be requested to be included in the written representation letter: (Ref: Para A71)
- (a) preparing and disclosing the aggregated financial information in the public document, or other document;
 - (b) the intended use of the financial information;
 - (c) selecting, developing, applying, and disclosing, the applicable criteria used in the preparation and presentation of the aggregated financial information;
 - (d) determining the applicable time periods for which the financial information is to be disclosed;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (e) ensuring that the financial information has been aggregated in accordance with the applicable criteria as set out in the public document, or other document;
 - (f) providing the assurance practitioner with all relevant information and access to all records, documentation and sources of information necessary for the completion of the assurance engagement;
 - (g) providing the assurance practitioner with a listing of all immaterial required adjustments, or known uncorrected misstatements, in the financial information; together with an acknowledgement that they are responsible for concluding that such adjustments are immaterial; and
 - (h) advising the assurance practitioner of any matter, event or issue that has arisen and/or been discovered subsequent to the preparation of the financial information that may impact or require adjustment to the financial information.
130. The responsibilities of the responsible party shall be described in the written representations in the manner in which they are described in the agreed terms of the assurance engagement.
131. The assurance practitioner shall obtain such other written representations from the responsible party, which the assurance practitioner determines appropriate in the circumstances of the assurance engagement.
132. If the responsible party is unable to, or does not provide the required written representation letter, the assurance practitioner shall evaluate its implications for the engagement, and on the assurance report.
(Ref: Para. A72)

Concluding on the Engagement

133. The assurance practitioner shall conclude on whether the evidence obtained enables them to express an assurance conclusion on the aggregated financial information. (Ref: Para. A74)
134. The assurance practitioner shall form a conclusion, based on the evidence obtained through the work performed, as to whether anything has come to their attention that causes the assurance practitioner to believe that the financial information is not prepared,

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

in all material respects, in accordance with the stated basis of preparation for the aggregated financial information.

Types of Conclusion in an Assurance Report

135. The assurance practitioner shall express either a:
- (a) an unmodified limited assurance conclusion in the assurance report when the assurance practitioner concludes that nothing has come to their attention that causes them to believe that the financial information is not prepared in all material respects, in accordance with the stated basis of preparation; or (Ref: Para. A75)
 - (b) an modified conclusion in the assurance report in accordance with the requirements of paragraph's 136-142 of this ASAE. (Ref: Para. A82).

Modifications to the Conclusion in the Assurance Report (Ref: Para. A76-A78)

136. The assurance practitioner shall qualify the limited assurance conclusion in the assurance report when matters have come to the assurance practitioner's attention that cause the assurance practitioner to believe that the financial information is not prepared, in all material respects, in accordance with the stated basis of preparation.
137. When the effects of the matters that have come to the assurance practitioner's attention are so material and pervasive to the financial information that the assurance practitioner concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the financial information, the assurance practitioner shall express an adverse conclusion that the financial information is not prepared fairly, in all material respects, in accordance with the stated basis of preparation.
138. If the assurance practitioner determines there has been a material scope limitation, the assurance practitioner shall express a qualification of the conclusion regarding the possible adjustments to the financial information that might have been determined to be necessary had the limitation not existed.
139. The assurance practitioner shall issue a disclaimer of conclusion:

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (a) 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; or
 - (b) 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 financial information not to be properly prepared, could be material and pervasive.
140. If the assurance practitioner concludes, that 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 discuss this material uncertainty with the responsible party, and:
141. In the event that the responsible party does not make appropriate changes in the public document, or other document, the assurance practitioner shall express a qualified or adverse conclusion, as appropriate, in the assurance report; or
142. Where appropriate changes are made in the public document, or other document, the assurance practitioner shall include an Emphasis of Matter Paragraph in the assurance report.

Reporting on the Engagement

143. The assurance practitioner shall provide a written assurance report to the responsible party containing a clear expression of the assurance practitioner's conclusion about the aggregated financial information included in the public document, or other document. (Ref: Para. A83)

Basic Elements of the Assurance Report

144. The assurance report shall include the following basic elements (Ref: Para. A84-A86):
- (a) a title;
 - (b) the addressee;
 - (c) a scope/background section that:

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (i) identifies the purpose of the report;
- (ii) identifies the aggregated financial information being reported on, and refers to the section of the public document, or other document, that outlines the applicable criteria and basis of preparation of the financial information;
- (iii) acknowledges that the responsible party is responsible for the aggregation of financial information being reported on by the assurance practitioner;
- (iv) the source of the financial information used in the compilation of the financial information, and whether such source has been previously audited or reviewed.
- (v) the relevant disclosures in the public document, or other document, that explain the aggregated financial information.
- (vi) the period covered by the aggregated financial information;
- (vii) a reference to the applicable criteria and the source of the criteria;
- (viii) states that the assurance report has been prepared either for:
 - ◆ inclusion in a public document; or
 - ◆ inclusion in a other document related to a proposed corporate transaction, or the examination of prospective financial information, and, accordingly, is not suitable for any other purpose;
- (ix) defines the responsibilities of the assurance practitioner; including:
 - ◆ the assurance practitioner's responsibility to form a conclusion as to whether the financial information has been aggregated

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- in accordance with the stated basis of preparation;
- ◆ the engagement did not include an audit or review of the financial information that has been a; or updating any previously issued audit or review reports on any financial information used in the aggregation;
- ◆ the assurance engagement has been conducted in accordance with the Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*;
- (x) defines the responsibilities of the responsible party in relation to the aggregated financial information;
- (d) where applicable, includes a separate section titled “Other Matters”, or other appropriate title, that describes a material inconsistency between the financial information and other information included in the public document, or other document;
- (e) a separate section expressing the assurance practitioner’s conclusion on the aggregated financial information covered by the assurance engagement:
 - (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 financial information is not aggregated in all material respects, in accordance with the stated basis of preparation”; or
 - (ii) for modified conclusions, the assurance report shall draw attention to these matters in a separate clearly identified section describing the modification;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (f) an independence, or disclosure of interest, statement;
- (g) the assurance practitioner's signature;
- (h) the assurance practitioner's address; and
- (i) the date of the report.

Consent to the Inclusion of the Assurance Report in another document

- 145. The assurance practitioner shall consider applicable law or regulation in providing consent in writing to the inclusion of the assurance report in a public document, or other document.
- 146. Where the assurance practitioner considers it inappropriate for the assurance report to be included in the public document, or other document, consent shall not be provided or can be revoked prior to the relevant date. (Ref: Para. A92-A93)

Documentation

- 147. The assurance practitioner shall prepare documentation, on a timely basis, of all matters that provides sufficient appropriate evidence to support: (Ref: Para. A94-A95)
 - (a) the conclusion(s) expressed in the assurance report; and
 - (b) that the assurance engagement was performed in accordance with this ASAE.

Reporting on the process to compile financial information

Assurance Engagement Acceptance

Preconditions for Acceptance

- 148. The assurance practitioner shall accept the assurance engagement only if: (Ref: Para. A5-A10)
 - (a) the responsibility for the process to compile the financial information that is to be the subject of the assurance report is the responsibility of a party other than the assurance practitioner, or its intended users;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (b) the responsible party accepts that the assurance practitioner has no responsibility for the underlying financial information that is the subject of the compilation process;
- (c) on the basis of preliminary knowledge of the assurance engagement circumstances, nothing has come to the assurance practitioner's attention to indicate that the requirements of the relevant ethical principles described in ASA 102, will not be satisfied;
- (d) the assurance practitioner is satisfied that those persons who are to perform the assurance engagement possess the necessary professional competencies;
- (e) the assurance practitioner believes that the assurance report will be used for its intended purpose;
- (f) if the assurance practitioner obtains the written agreement of the responsible party that it acknowledges, understands, and accepts its responsibility for:
 - (i) selecting the compilation process for gathering, classifying and summarising the financial information, ;
 - (ii) compiling the financial information in accordance with the compilation process;
 - (iii) preparing the public document³⁷, or other document;
 - (iv) such internal control as the responsible party determines is necessary to properly undertake the process to compile the financial information; and
- (g) providing the assurance practitioner with:
 - (i) access to all information, such as records, documentation and other matters relevant to the compilation of the financial information;

³⁷ 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).

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (ii) access to the whole public document, or other document;
 - (iii) any additional information that the assurance practitioner may request from those charged with governance, management, or their experts for the purpose of the engagement; and
149. The assurance practitioner should perform any non-assurance services in connection with the assurance engagement in accordance with relevant ethical requirements and applicable professional standards,³⁸ having particular regard to independence.

Agreeing on the Terms of the Assurance Engagement

150. The assurance practitioner shall agree the terms of the assurance engagement in writing with the responsible party.
151. When the assurance engagement is undertaken pursuant to legislation, the assurance engagement terms shall include those contained in the legislation. (Ref: Para. A13)
152. The agreed terms of the assurance engagement shall include:
(Ref: Para. A14)
- (a) the objective and scope of the assurance engagement, including:
 - (i) the nature, source, purpose and time period covered by the financial information to be included in the public document, or other document, as appropriate;
 - (ii) a statement that the assurance practitioner will perform and report the results of the assurance engagement in accordance with this ASAE; and
 - (iii) the type of assurance (limited or reasonable assurance) that the assurance practitioner is expected to provide on the process to compile the financial information;

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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (b) a summary of assurance procedures to be performed by the assurance practitioner during the engagement;
- (c) the responsibilities of the assurance practitioner, including:
 - (i) performing assurance procedures on the process to compile the financial information to enable the assurance practitioner to determine whether it has been prepared in accordance with the applicable compilation process;
 - (ii) issuing a written assurance report, and whether it will be included in a public document, or other document; and
 - (iii) compliance with relevant ethical requirements, including independence;
- (d) a statement indicating that the assurance practitioner is not responsible for the process to compile the financial information, or the underlying financial information itself;
- (e) where applicable, the process for the assurance practitioner providing consent to the responsible party for including the assurance practitioner's name and assurance report in a public document, or other document; and
- (f) other such 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

- 153. Where the responsible party requests the assurance practitioner to change the nature or terms of the assurance engagement before the completion of the assurance engagement, the assurance practitioner shall consider the appropriateness of the request and shall not agree to a change without reasonable justification.
(Ref: Para. A16-A17)
- 154. The assurance practitioner shall agree any new terms with the responsible party in writing.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

155. The assurance practitioner shall not disregard evidence obtained prior to an agreed change of terms in the conduct of the assurance engagement.

Planning the Assurance Engagement

156. The assurance practitioner shall plan the assurance engagement in accordance with this ASAE. (Ref: Para. A18-A19)
157. When determining the nature, timing, and extent of procedures for examining the process to compile the financial information, the assurance practitioner's considerations shall include:
(Ref: Para. A19-A23)
- (a) the agreed terms of engagement;
 - (b) any previous dealings with the entity; and
 - (c) whether the use of an expert is required.

Materiality

158. The assurance practitioner shall consider materiality when planning and performing the assurance engagement in accordance with this ASAE.³⁹ (Ref: Para. A24-A25)

Assurance Engagement Risk

159. The assurance practitioner shall consider assurance engagement risk when planning the assurance engagement in order to reduce such risk to an acceptable level, as appropriate in the circumstances of the engagement. (Ref: Para. A26-A27)

Assessment of the Suitability of the Stated Basis of Preparation

160. The assurance practitioner shall consider, based on preliminary knowledge, whether the stated basis of preparation for the process to compile the financial information is not misleading for its intended purpose. (Ref: Para. A28)

³⁹ 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 transaction engagements.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Reliance on the work of another Assurance Practitioner

161. In the conduct of the engagement, if the assurance practitioner intends to place reliance⁴⁰ on financial information that has been audited or reviewed by another assurance practitioner, the assurance practitioner shall: (Ref: Para. A29-A30)
- (a) consider the scope, professional competence, work performed and conclusion expressed by the other assurance practitioner; and
 - (b) determine whether there is a need to perform additional procedures on the base financial information;
 - (c) where the other assurance practitioner's opinion was modified, determine the implications for the assurance engagement;
 - (i) consider the assurance practitioner's ability to undertake the engagement in accordance with the agreed terms; and
 - (ii) consider the potential impact, if any, on the assurance report.

Procedures and Evidence

Evaluating the Sufficiency and Appropriateness of Evidence Obtained

162. The assurance practitioner shall evaluate whether they have obtained sufficient appropriate evidence on which to express an assurance conclusion on the process to compile the financial information.⁴¹ (Ref: Para. A55)

Communications with the Responsible Party

163. When, as a result of performing the examination of the process to compile financial information, a matter comes to the assurance practitioner's attention that causes the assurance practitioner to

⁴⁰ 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.

⁴¹ 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 transaction engagements.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

believe that it is necessary to make a material adjustment to the process to compile the financial information for it to be prepared in accordance with the stated basis of preparation, the assurance practitioner shall communicate this matter as soon as practicable to the responsible party. (Ref: Para. A60)

164. When, in the assurance practitioner's judgment, the responsible party does not respond appropriately to the assurance practitioner's communication within a reasonable time, the assurance practitioner shall consider the implications on the assurance report. (Ref: Para. A61)

Consideration of Events Up to the Date of the Assurance Report

165. The assurance practitioner shall consider the effect on the financial information, of events, transactions, or errors which they become aware of that may materially impact the process used to compile the financial information up to and including the date of the assurance report. (Ref: Para. A65)
166. The assurance practitioner shall discuss with the responsible party any such event(s) and/or transaction(s) identified under paragraph 62 of this ASAE, with a view to concluding as to whether their effect on the financial information is material and needs to be reflected in:
- (a) the process used to compile the financial information included in the public document, or other document; and/or
 - (b) the assurance report.

Consideration of Events Identified After Date of the Assurance Report

167. If the assurance practitioner becomes aware of events, transactions or errors after the date of the issue of the assurance report and before the relevant date ("subsequent events"), that may materially impact the financial information, the assurance practitioner shall:
(Ref: Para. A66)
- (a) discuss such events and/or transactions with the responsible party; and
 - (b) consider what further action is appropriate in the circumstances of the engagement.
168. The assurance practitioner shall revoke their consent to include the assurance report in the public document, or other document, if the

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

matter related to subsequent events is not, in the assurance practitioners' judgement, appropriately addressed by the responsible party. (Ref: Para. A67)

Written Representations

169. The assurance practitioner shall request a written representation letter from the responsible party, addressed to the assurance practitioner. The date of the representation letter shall be as near as practicable to, but not after, the date of the assurance report. (Ref: Para. A68-A71)
170. Where the assurance practitioner has not already received representations from the responsible party covering its acceptance of responsibility for the following matters, these shall be requested to be included in the written representation letter: (Ref: Para. A73)
- (a) preparing and disclosing the financial information in the public document, or other document;
 - (b) the intended use of the financial information;
 - (c) selecting, developing, applying, and disclosing, the stated basis of preparation used in the process to compile the financial information;
 - (d) determining the applicable time periods for which the financial information is to be disclosed;
 - (e) the compilation process has been appropriately undertaken by the responsible party to reflect all the material effects of the underlying events and transactions;
 - (f) the omission of any pro forma adjustments from the compilation is because they do not meet the stated basis of preparation, and their omission does not render the pro forma financial information misleading;
 - (g) providing the assurance practitioner with all relevant information and access to all records, documentation and sources of information necessary for the completion of the assurance engagement;
 - (h) providing the assurance practitioner with a listing of all immaterial required adjustments, or known uncorrected

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

misstatements, in the financial information; together with an acknowledgement that they are responsible for concluding that such adjustments are immaterial; and

- (i) advising the assurance practitioner of any matter, event or issue that has arisen and/or been discovered subsequent to the completion of the process used to compile the financial information that may impact or require adjustment to the financial information.
171. The responsibilities of the responsible party shall be described in the written representations in the manner in which they are described in the agreed terms of the assurance engagement.
172. The assurance practitioner shall obtain such other written representations from the responsible party, which the assurance practitioner determines appropriate in the circumstances of the assurance engagement.
173. If the responsible party is unable to, or does not provide the required written representation letter, the assurance practitioner shall evaluate its implications for the engagement, and on the assurance report.
(Ref: Para. A72)

Concluding on the Engagement

174. The assurance practitioner shall conclude on whether the evidence obtained enables them to express an assurance conclusion on the process to compile the financial information. (Ref: Para. A74)
175. The assurance practitioner shall form a conclusion, based on the evidence obtained through the work performed, as to whether anything has come to their attention that causes the assurance practitioner to believe that the process to compile the financial information has not been conducted, in all material respects, in accordance with the stated basis of preparation.

Types of Conclusion in an Assurance Report

176. The assurance practitioner shall express either:
- (a) an unmodified limited assurance conclusion in the assurance report when the assurance practitioner concludes that “nothing has come to the assurance practitioner attention that causes them to believe that the financial

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

information is not prepared in all material respects, in accordance with the stated basis of preparation”; or
(Ref: Para. A75)

- (b) an unmodified reasonable assurance conclusion in the assurance report when the assurance practitioner concludes that the financial information is not prepared in all material respects, in accordance with the stated basis of preparation.
(Ref: Para. A75)

- 177. The assurance practitioner shall express a modified conclusion in the assurance report in circumstances described in paragraphs 178-182 of this ASAE.

Modifications to the Conclusion in the Assurance Report (Ref: Para. A76-A78)

- 178. The assurance practitioner shall qualify the limited assurance conclusion in the assurance report when matters have come to the assurance practitioner’s attention that cause the assurance practitioner to believe that the process to compile the financial information has not been undertaken, in all material respects, in accordance with the stated basis of preparation. (Ref: Para. A82)
- 179. When the effects of the matters that have come to the assurance practitioner’s attention are so material and pervasive to the financial information that the assurance practitioner concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the financial information, the assurance practitioner shall express an adverse conclusion that the financial information is not prepared fairly, in all material respects, in accordance with the stated basis of preparation.
- 180. If the assurance practitioner determines there has been a material scope limitation, the assurance practitioner shall express a qualification of the conclusion regarding the possible adjustments to the financial information that might have been determined to be necessary had the limitation not existed.
- 181. The assurance practitioner shall issue a disclaimer of conclusion:
 - (a) 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; or

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (b) 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 financial information not to be properly prepared, could be material and pervasive.
182. In the event that the responsible party does not make appropriate changes in the public document, or other document, the assurance practitioner shall express a qualified or adverse conclusion, as appropriate, in the assurance report; or where appropriate changes are made in the public document, or other document, the assurance practitioner shall include an Emphasis of Matter Paragraph in the assurance report.

Reporting on the Engagement

183. The assurance practitioner shall provide a written assurance report to the responsible party containing a clear expression of the assurance practitioner's conclusion about the financial information included in the public document, or other document. (Ref: Para. A83)

Basic Elements of the Assurance Report

184. The assurance report shall include the following basic elements (Ref: Para. A84-A86):
- (a) a title;
 - (b) the addressee;
 - (c) a scope/background section that:
 - (i) identifies the purpose of the report;
 - (ii) identifies the financial information that has been subject to the compilation process, and refers to the section of the public document, or other document, that outlines the stated basis of preparation for the process to compile the financial information;
 - (d) An introductory paragraph that identifies:

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (i) the source of the financial information used in the compilation of the financial information, and whether such source has been previously audited or reviewed.
- (ii) the relevant disclosures in the public document, or other document, that explain how the process to compile the financial information was conducted;
- (iii) acknowledges that the responsible party is responsible for the preparation of the financial information, and the process to compile such financial information;
- (iv) the period covered by the process to compile the financial information;
- (v) a reference to the stated basis of preparation;
- (vi) states that the assurance report has been prepared:
 - ◆ for inclusion in a public document;
 - ◆ for inclusion in a other document related to a proposed corporate transaction or the examination of prospective financial information, and, accordingly, is not suitable for any other purpose;
- (vii) defines the responsibilities of the assurance practitioner:
 - ◆ including that the assurance practitioner is not responsible for the process to compile the financial information, or the underlying financial information itself; and
 - ◆ the engagement did not include an audit or review of the financial information that has been the subject of the compilation process; or updating any previously issued audit or review reports on any financial information used in the compilation of the financial information;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (viii) indicates that the examination of the financial information has been conducted in accordance with the Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*; and
- (ix) defines the responsibilities of the responsible party in relation to the process to compile the financial information;
- (e) includes, where applicable, a separate section titled “Other Matters”, or other appropriate title, that describes a material inconsistency between the process to compile the financial information and other information included in the public document, or other document;
- (f) a section expressing the assurance practitioner’s conclusion on the process to compile the 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 process to compile the financial information has not been undertaken in all material respects, in accordance with the stated basis of preparation;” or
 - (ii) for modified conclusions, the assurance report shall draw attention to these matters in a separate clearly identified section describing the modification;
- (g) an independence, or disclosure of interest, statement;
- (h) the assurance practitioner’s signature;
- (i) the assurance practitioner’s address; and
- (j) the date of the report.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Consent to the Inclusion of the Assurance Report in another document

185. The assurance practitioner shall consider applicable law or regulation in providing consent in writing to the inclusion of the assurance report in a public document, or other document.
186. Where the assurance practitioner considers it inappropriate for the assurance report to be included in the public document, or other document, consent shall not be provided or can be revoked prior to the relevant date. (Ref: Para. A92-A93)

Documentation

187. The assurance practitioner shall prepare documentation, on a timely basis, of all matters that provides sufficient appropriate evidence to support: (Ref: Para. A94-A95)
- (a) the conclusion(s) expressed in the assurance report; and
 - (b) that the assurance engagement was performed in accordance with this ASAE.

Reporting on Prospective Financial Information

Assurance Engagement Acceptance

Preconditions for Acceptance

188. The assurance practitioner shall accept the assurance engagement only if: (Ref: Para. A5-A10)
- (a) if the responsibility for the preparation of all financial information which is to be the subject of the assurance engagement is the responsibility of a party other than the assurance practitioner, or its intended users;
 - (b) on the basis of preliminary knowledge of the assurance engagement circumstances, nothing has come to the attention of the assurance practitioner to indicate that the requirements of the relevant ethical principles described in ASA 102, will not be satisfied;
 - (c) the assurance practitioner is satisfied that those persons who are to perform the assurance engagement possess the necessary professional competencies;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (d) the assurance practitioner believes that the assurance report will be used for its intended purpose;
- (e) the assurance practitioner obtains the written agreement of the responsible party that it acknowledges, understands, and accepts its responsibility for: (Ref: Para. A11-A12)
 - (i) preparing the prospective financial information based on best-estimate assumptions and not on the basis of material hypothetical assumptions;⁴²
 - (ii) preparing prospective financial information that has a reasonable basis⁴³ of preparation; and
 - (iii) preparing prospective financial information that is not misleading;
 - (iv) such internal control as the responsible party determines is necessary to properly prepare the prospective financial information; and
- (f) providing the assurance practitioner with:
 - (i) access to all information, such as records, documentation and other matters relevant to the financial information;
 - (ii) access to the whole public document, or other document;
 - (iii) any additional information that the assurance practitioner may request from those charged with governance, management, or their experts for the purpose of the engagement; and
- (g) 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.

⁴² Where the prospective financial information is intended to be included in a public document, refer RG 170.

⁴³ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

189. The assurance practitioner should perform any non-assurance services in connection with the assurance engagement in accordance with relevant ethical requirements and applicable professional standards,⁴⁴ having particular regard to independence.

Agreeing on the Terms of the Assurance Engagement

190. The assurance practitioner shall agree the terms of the assurance engagement in writing with the responsible party.
191. When the assurance engagement is undertaken pursuant to legislation, the assurance engagement terms shall include those contained in the legislation. (Ref: Para. A13)
192. The agreed terms of the assurance engagement shall include:
(Ref: Para. A14)
- (a) the objective and scope of the assurance engagement, including:
 - (i) the nature, source, purpose and time period covered by the financial information to be included in the public document, or other document, as appropriate;
 - (ii) a statement that the assurance practitioner will perform and report the results of the assurance engagement in accordance with this ASAE; and
 - (iii) limited assurance will be provided by the assurance practitioner on the financial information;
 - (b) a summary of assurance procedures to be performed by the assurance practitioner during the engagement;
 - (c) the responsibilities of the assurance practitioner, including:
 - (i) examining the reasonableness of assumptions used by the responsible party as the basis for preparation of prospective financial information;
(Ref: Para. A15)

⁴⁴ See APES 110 *Code of Ethics for Professional Accountants*, (November 2009) issued by the Accounting Professional and Ethical Standards Board.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (ii) determining whether the prospective financial information has been prepared, in all material respects, in accordance with the recognition and measurement principles included in applicable accounting standards;
 - (iii) performing assurance procedures on the financial information to enable the assurance practitioner to determine whether it has been prepared in accordance with the applicable criteria;
 - (iv) issuing a written assurance report, and whether it will be included in a public document, or other document; and
 - (v) compliance with relevant ethical requirements, including independence;
- (d) a statement indicating that the assurance practitioner is not responsible for the preparation of the prospective financial information;
 - (e) where applicable, the process for the assurance practitioner providing consent to the responsible party for including the assurance practitioner's name and assurance report in a public document, or other document; and
 - (f) other such 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

- 193. Where the responsible party requests the assurance practitioner to change the nature or terms of the assurance engagement before the completion of the assurance engagement, the assurance practitioner shall consider the appropriateness of the request and shall not agree to a change without reasonable justification. (Ref: Para. A16-A17)
- 194. The assurance practitioner shall agree any new terms with the responsible party in writing.
- 195. The assurance practitioner shall not disregard evidence obtained prior to an agreed change of terms in the conduct of the assurance engagement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Planning the Assurance Engagement

196. The assurance practitioner shall plan the assurance engagement in accordance with:
- (a) ASAE 3000, for examination of the prospective financial information; and
 - (b) this ASAE, for other assurance engagement work performed on the financial information. (Ref: Para. A18-A19)
197. When determining the nature, timing, and extent of procedures for examining the financial information, the assurance practitioner's considerations shall include: (Ref: Para. A19-A23)
- (a) the agreed terms of engagement;
 - (b) any previous dealings with the entity;
 - (c) the nature of the financial information;
 - (d) the reliability of the source of the underlying data; and
 - (e) whether the use of an expert is required.

Materiality

198. The assurance practitioner shall consider materiality when planning and performing the assurance engagement in accordance with this ASAE.⁴⁵ (Ref: Para. A24-A25)

Assurance Engagement Risk

199. The assurance practitioner shall consider assurance engagement risk when planning the assurance engagement in order to reduce such risk to an acceptable level, as appropriate in the circumstances of the engagement. (Ref: Para. A26-A27)

Assessment of the Suitability of Applicable Criteria

200. The assurance practitioner shall consider, based on preliminary knowledge, whether the applicable criteria used in the preparation of

⁴⁵ 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 transaction engagements.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

the financial information is not misleading for its intended purpose.
(Ref: Para. A28)

Reliance on the work of another Assurance Practitioner

201. In the conduct of the engagement, if the assurance practitioner intends to place reliance⁴⁶ on financial information that has been audited or reviewed by another assurance practitioner, the assurance practitioner shall: (Ref: Para. A29-A30)
- (a) consider the scope, professional competence, work performed and conclusion expressed by the other assurance practitioner; and
 - (b) determine whether there is a need to perform additional procedures on the base financial information;
 - (c) where the other assurance practitioner's opinion was modified, determine the implications for the assurance engagement;
 - (i) consider the assurance practitioner's ability to undertake the engagement in accordance with the agreed terms; and
 - (ii) consider the potential impact, if any, on the assurance report.
202. The assurance practitioner shall obtain a sufficient level of knowledge of the entity's business to be able to evaluate whether the responsible party has identified all material assumptions required for the preparation of the prospective financial information.
203. When determining the nature, timing, and extent of examination procedures, the assurance practitioner's considerations shall include: (Ref: Para. A33)
- (a) the number of years to report on, when the financial information is a forecast;
 - (b) the likelihood of material misstatement of the prospective financial information;

⁴⁶ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (c) an assessment of the responsible party's competence regarding the preparation of prospective financial information;
- (d) the extent to which the prospective financial information is affected by the responsible party's judgement;
- (e) the reliability of the source of the underlying data; and
- (f) whether any of the underlying data has been previously audited or reviewed by another assurance practitioner, and if so, what type of opinion was issued.

Procedures and Evidence

- 204. The assurance practitioner shall design and perform examination procedures on prospective financial information in accordance with ASAE 3000.
- 205. The assurance practitioner, when examining prospective financial information, shall obtain sufficient appropriate evidence as to whether: (Ref: Para. A50-A53)
 - (a) the responsible party's best-estimate assumptions on which the prospective financial information is based are reasonable and, in the case of hypothetical assumptions, not material to the overall forecast; and
 - (b) the prospective financial information is properly prepared on the basis of the responsible party's assumptions.⁴⁷
- 206. The assurance practitioner shall consider the time period covered by the prospective financial information.
- 207. If the responsible party's best-estimate assumptions on which the prospective financial information is based are determined by the assurance practitioner not to be reasonable, the assurance practitioner shall consider the assumptions to be hypothetical and

⁴⁷ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

shall determine the implications for the assurance report, taking into account any applicable law or regulation.⁴⁸

Evaluating the Sufficiency and Appropriateness of Evidence Obtained

208. The assurance practitioner shall evaluate whether they have obtained sufficient appropriate evidence on which to express an assurance conclusion on the financial information.⁴⁹ (Ref: Para. A55)

Other Information

Material Inconsistencies

209. The assurance practitioner shall request from the responsible party a copy of the entire public document or other document prepared in connection with the financial information, and read the other information included in it, including information which is not the subject of the assurance engagement, to consider whether the public document, or other document, as a whole, is materially consistent with the financial information. (Ref: Para. A56)
210. If, on reading the other information, the assurance practitioner identifies a material inconsistency between the other information and the financial information, the assurance practitioner shall discuss such inconsistency with the responsible party and determine whether the financial information and/or the other information needs to be revised. (Ref: Para. A57)
211. If the assurance practitioner considers that revision of the financial information under examination, or other information is necessary, and the responsible party refuses to make the revision, the assurance practitioner shall determine the implications for the assurance engagement and the assurance report.
212. Where revisions to the public document, or other document, are made as a result of material inconsistencies identified by the assurance practitioner, the assurance practitioner shall request an updated copy of the whole public document, or other document, in order to ensure that such changes are materially consistent with the financial information.

⁴⁸ See RG 170.

⁴⁹ 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 transaction engagements.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

Material Misstatements of Fact

213. If, on reading the other information for the purpose of identifying material inconsistencies, the assurance practitioner becomes aware of an apparent material misstatement of fact, the assurance practitioner shall discuss the matter with the responsible party. (Ref: Para. A58)
214. If, following such discussions, the assurance practitioner still considers that there is an apparent material misstatement of fact, the assurance practitioner shall request the responsible party to consult with an appropriate third party expert, such as the entity's legal counsel to resolve the issue. The assurance practitioner shall request to be informed of the advice received by the responsible party and shall consider its implications for the assurance engagement and the assurance report.
215. If the assurance practitioner concludes that there is a material misstatement of fact in the other information, which the responsible party refuses to correct, the assurance practitioner shall take further appropriate action, including considering the implications for the type of conclusion expressed in the assurance report. (Ref: Para. A59)

Communications with the Responsible Party

216. When, as a result of performing the examination of the financial information, 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 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. A60)
217. When, in the assurance practitioner's judgment, the responsible party does not respond appropriately to the assurance practitioner's communication within a reasonable time, the assurance practitioner shall consider the implications on the assurance report. (Ref: Para. A61)

Going Concern Considerations

218. The assurance practitioner shall determine, in their engagement circumstances, if going concern considerations of the entity are relevant to their assurance engagement. (Ref: Para. A62)

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

219. Where going concern considerations are relevant to the assurance engagement, the assurance practitioner shall consider these in accordance with applicable Accounting Standards.⁵⁰ If the assurance practitioner believes that the entity is not a going concern, the assurance practitioner shall consider the implications for the assurance engagement and the assurance report.
(Ref: Para. A63-A64)

Consideration of Events Up to the Date of the Assurance Report

220. The assurance practitioner shall consider the effect on the financial information, of events, transactions, or errors which they become aware of that may materially impact the financial information up to and including the date of the assurance report. (Ref: Para. A65)
221. The assurance practitioner shall discuss with the responsible party any such event(s) and/or transaction(s) identified under paragraph X of this ASAE, with a view to concluding as to whether their effect on the financial information is material and needs to be reflected in:
- (a) the financial information included in the public document, or other document; and/or
 - (b) the assurance report.

Consideration of Events Identified After the Date of the Assurance Report

222. If the assurance practitioner becomes aware of events, transactions or errors after the date of the issue of the assurance report and before the relevant date (“subsequent events”), that may materially impact the financial information, the assurance practitioner shall:
(Ref: Para. A66)
- (a) discuss such events and/or transactions with the responsible party; and
 - (b) consider what further action is appropriate in the circumstances of the engagement.

⁵⁰ The concepts and discussions on the going concern assessment relevant to an audit engagement are contained in AASB 101 *Presentation of Financial Statements*, paragraphs 25-26, and may be helpful in performing a going concern assessment in an assurance engagement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

223. The assurance practitioner shall revoke their consent to include the assurance report in the public document, or other document, if the matter related to subsequent events is not, in the assurance practitioners' judgement, appropriately addressed by the responsible party. (Ref: Para. A67)

Written Representations

224. The assurance practitioner shall request a written representation letter from the responsible party, addressed to the assurance practitioner. The date of the representation letter shall be as near as practicable to, but not after, the date of the assurance report. (Ref: Para. A68-A71)
225. Where the assurance practitioner has not already received representations from the responsible party covering its acceptance of responsibility for the following matters, these shall be requested to be included in the written representation letter: (Ref: Para A71)
- (a) preparing and disclosing the financial information in the public document, or other document;
 - (b) the intended use of the financial information;
 - (c) selecting or developing, applying, and disclosing, the applicable criteria used in the preparation and presentation of the financial information;
 - (d) determining the applicable time periods for which the financial information is to be disclosed;
 - (e) ensuring that the financial information has been prepared in accordance with the applicable criteria as set out in the public document, or other document;
 - (f) providing the assurance practitioner with all relevant information and access to all records, documentation and sources of information necessary for the completion of the assurance engagement;
 - (g) the completeness of the material best-estimate assumptions used in the preparation of the prospective financial information;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (h) for determining that all best-estimate assumptions used in the preparation of prospective financial information have reasonable grounds;
 - (i) providing the assurance practitioner with a listing of all immaterial required adjustments, or known uncorrected misstatements, in the financial information; together with an acknowledgement that they are responsible for concluding that such adjustments are immaterial; and
 - (j) advising the assurance practitioner of any matter, event or issue that has arisen and/or been discovered subsequent to the preparation of the financial information that may impact or require adjustment to the financial information.
226. The responsibilities of the responsible party shall be described in the written representations in the manner in which they are described in the agreed terms of the assurance engagement.
227. The assurance practitioner shall obtain such other written representations from the responsible party, which the assurance practitioner determines appropriate in the circumstances of the assurance engagement.
228. If the responsible party is unable to, or does not provide the required written representation letter, the assurance practitioner shall evaluate its implications for the engagement, and on the assurance report.
(Ref: Para. A72)

Concluding on the Engagement

229. The assurance practitioner shall conclude on whether the evidence obtained enables them to express an assurance conclusion on the financial information. (Ref: Para. A74)
230. The assurance practitioner shall form a conclusion, based on the evidence obtained through the work performed, as to whether anything has come to their attention that causes the assurance practitioner to believe that the financial information is not prepared, in all material respects, in accordance with the:
- (a) applicable criteria; or
 - (b) stated basis of preparation in the case of pro forma financial information.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Types of Conclusion in an Assurance Report

231. The assurance practitioner shall express either:
- (a) an unmodified limited assurance conclusion in the assurance report when the assurance practitioner concludes nothing has come to their attention that causes them to believe:
 - (i) that the financial information is not prepared in all material respects, in accordance with the recognition and measurement principles included in applicable accounting standards; (Ref: Para. A75) and
 - (ii) the responsible part's best-estimate assumptions on which the prospective financial information is based are reasonable;
 - (b) an modified conclusion in the assurance report in circumstances described in paragraphs 232-237 of this ASAE.

Modifications to the Conclusion in the Assurance Report (Ref: Para. A76-A78)

232. The assurance practitioner shall qualify the limited assurance conclusion in the assurance report when matters have come to the assurance practitioner's attention that cause the assurance practitioner to believe that the financial information is not prepared, in all material respects, in accordance with the recognition and measurement principles included in applicable accounting standards.
233. When the effects of the matters that have come to the assurance practitioner's attention are so material and pervasive to the financial information that the assurance practitioner concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the financial information, the assurance practitioner shall express an adverse conclusion that the when the assurance practitioner concludes that the prospective financial information is not prepared on a reasonable basis. (Ref: Para. A79-A80)
234. If the assurance practitioner determines there has been a material scope limitation, the assurance practitioner shall express a qualification of the conclusion regarding the possible adjustments to

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

the financial information that might have been determined to be necessary had the limitation not existed.

235. The assurance practitioner shall issue a disclaimer of conclusion:
- (a) 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; or
 - (b) 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.
236. If the assurance practitioner concludes, that 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 discuss this material uncertainty with the responsible party, and:
237. In the event that the responsible party does not make appropriate changes in the public document, or other document,
- (a) the assurance practitioner shall express a qualified or adverse conclusion, as appropriate, in the assurance report; or
 - (b) where appropriate changes are made in the public document, or other document, the assurance practitioner shall include an Emphasis of Matter Paragraph in the assurance report.

Reporting on the Engagement

238. The assurance practitioner shall provide a written assurance report to the responsible party containing a clear expression of the assurance practitioner's conclusion about the prospective financial information included in the public document, or other document. (Ref: Para. A83)

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

Basic Elements of the Assurance Report

239. The assurance report shall include the following basic elements
(Ref: Para. A84-A86):
- (a) a title;
 - (b) the addressee;
 - (c) a scope/background section that:
 - (i) identifies the purpose of the report;
 - (ii) identifies the financial information being reported on, and refers to the section of the public document, or other document, that outlines the applicable criteria and basis of preparation of the financial information;
 - (iii) acknowledges that the responsible party is responsible for the preparation of financial information being reported on by the assurance practitioner;
 - (iv) the period covered by the financial information;
 - (v) a reference to the applicable criteria and the source of the criteria;
 - (vi) defines the responsibilities of the responsible party in relation to the financial information;
 - (vii) defines the responsibilities of the assurance practitioner;
 - (viii) states that the assurance report has been prepared:
 - ◆ for inclusion in a public document; or
 - ◆ for inclusion in another document relating to the proposed corporate transaction or the examination of prospective financial information, and, accordingly, is not suitable for any other purpose.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (ix) indicates that the examination of the financial information has been conducted in accordance with the Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*; and
- (x) defines the responsibilities of the responsible party in relation to the financial information;
- (d) where applicable, includes a separate section titled “Other Matters”, or other appropriate title, that describes a material inconsistency between the financial information and other information included in the public document, or other document;
- (e) a section expressing the assurance practitioner’s conclusion in respect of whether in all material respects anything has come to the assurance practitioner’s attention which causes the assurance practitioner to believe that:
 - (i) the responsible party’s best-estimate assumptions do not provide a reasonable basis for the preparation of the prospective financial information;
 - (ii) the prospective financial information is not properly prepared, on the basis of the assumptions; and
 - (iii) the prospective financial information is not presented fairly in accordance with an identified financial reporting framework and, where appropriate, on a basis consistent with the accounting policies adopted, and disclosed by the entity in its previous financial report dated [30 June 20XX].
- (f) where applicable, a statement that confirms that hypothetical assumptions used in the preparation of the prospective financial information do not have a material impact on the prospective financial information;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (i) a statement indicating that these procedures have been undertaken to form an conclusion as to whether, in all material respects: (Ref: Para. A89–A90)
- ◆ anything has come to the assurance practitioner’s attention which causes the assurance practitioner to believe that the responsible party’s assumptions do not provide a reasonable basis for the preparation of the prospective financial information; or
 - ◆ for modified conclusions, the assurance report shall draw attention to these matters in a separate clearly identified section describing the modification; and
 - ◆ the prospective financial information is:
 - ◇ properly prepared on the basis of the assumptions;
 - ◇ presented fairly in accordance with the identified financial reporting framework,
 - ◇ prepared on a basis consistent with the accounting policies adopted and disclosed by the entity in its previous financial report dated 30 June 20XX;
- (ii) a statement that the actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and such differences could be material;
- (g) an independence, or disclosure of interest, statement;
- (h) the assurance practitioner’s signature;
- (i) the assurance practitioner’s address; and
- (j) the date of the report.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Consent to the Inclusion of the Assurance Report in another document

240. The assurance practitioner shall consider applicable law or regulation in providing consent in writing to the inclusion of the assurance report in a public document, or other document.
241. Where the assurance practitioner considers it inappropriate for the assurance report to be included in the public document, or other document, consent shall not be provided or can be revoked prior to the relevant date. (Ref: Para. A92-A93)

Documentation

242. The assurance practitioner shall prepare documentation, on a timely basis, of all matters that provides sufficient appropriate evidence to support: (Ref: Para. A94-A95)
- (a) the conclusion(s) expressed in the assurance report; and
 - (b) that the assurance engagement was performed in accordance with this ASAE.

* * *

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Application and Other Explanatory Material

Reasonable Assurance Engagements (Ref: Para.6)

- A1. In respect of assurance engagement involving proposed corporate transactions, or the examination of prospective financial information, the assurance practitioner ordinarily plans the nature, timing, and extent of work to be performed on the financial information in order to express a limited assurance conclusion. This type of conclusion satisfies the requirements of applicable law and/or regulation. However, there is nothing in this ASAE to preclude the assurance practitioner from entering into, and performing an assurance engagement in order to express a reasonable assurance conclusion where such information is historical. 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. Financial information which is not historical; for example, pro forma forecast or prospective financial information; would ordinarily not be included in an assurance engagement where the assurance practitioner is requested to express a reasonable assurance conclusion, given its nature.

Non-Assurance Services (Ref: Para.7)

- A2. The assurance practitioner may provide non-assurance services in connection with the agreed terms of engagement. These services do not result in an assurance conclusion being expressed by the assurance practitioner;⁵¹ and consequently are not within the scope of this ASAE.
- A3. Non-assurance services are performed in accordance with the agreed terms of an engagement letter between the assurance practitioner and the entity. The assurance practitioner may decide that such non-assurance services may be included in a separate engagement letter from that containing the assurance services, or combined into a single engagement letter. Examples of non-assurance engagement that may be performed by the assurance practitioner in connection with a proposed corporate transaction include:
- (a) the preparation and issue of a Materiality Letter to a due diligence committee (DDC) of an entity in connection with

⁵¹ 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).

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- a proposed corporate transaction that is the subject of a public document;
- (b) participation in the DDC as 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).

Historical Financial Information

Engagement Acceptance

Preconditions for Acceptance (Ref: Para. 17)

- A4. The responsible party is ultimately responsible for the preparation and presentation of all information in the public document, or other document. The exception to this general rule is that the responsible party is not responsible for reports prepared by other parties/experts which are included in the public document, or other document, with the consent of those other parties/experts. This responsibility includes any assumptions and applied criteria used as the basis for the financial information. 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 public document or other document; however it is the responsible party who retains responsibility for such information.
- A5. Acknowledgement by the responsible party in writing via acceptance of the engagement letter provides evidence that the appropriate relationship exists, and establishes a basis for a common understanding of the responsibility of each party. A written acknowledgement is the most appropriate form of documenting the responsible party's understanding of its responsibilities.
- A6. 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*

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Act 2001,⁵² the directors of an entity are deemed responsible for the financial information included in a public document used in offering securities.

- A7. The assurance practitioner should not accept an assurance engagement unless the assurance practitioner is satisfied that there is a rational purpose for such engagement. For example:
- (a) if there is a significant limitation on the scope of the assurance practitioner's work; or
 - (b) 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;
- it may be unlikely that the assurance engagement has a rational purpose.
- A8. In circumstances where the assurance practitioner is a member of a firm which is also providing other non-assurance related services to the entity relating to the proposed corporate transaction, 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. Such 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.
- A9. If the responsible party is not also the engaging party (the party that engaged the services of the assurance practitioner to perform the assurance engagement), the assurance practitioner ordinarily considers the effect of this on access to records, documentation and other information the assurance practitioner may need to complete the assurance engagement.
- A10. The assurance practitioner exercises professional judgement in what assurance procedures are summarised in the engagement letter, taking into account the nature of the financial information that the

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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

assurance practitioner has been requested to opine on, and the engagement circumstances.

Agreeing on the Terms of the Assurance Engagement

- A11. To avoid misunderstandings, the agreed terms of the assurance engagement need to be recorded in an assurance engagement letter or other suitable form of contract. 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 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.
- A12. Appendix 2 provides an illustrative sample engagement letter for an assurance engagement in connection with proposed corporate transactions. (Ref: Para. 19)
- A13. The assurance engagement letter between the responsible party and the assurance practitioner needs to include the agreed engagement terms as required in paragraph 21 of this ASAE. It also ordinarily includes:
- (a) A statement that the assurance practitioner is independent of the responsible party, and of the financial information that is the subject of the assurance engagement.
 - (b) The nature of any published consent given by the assurance practitioner in relation to the form and context of statements made in a public document, or other document. The *Corporations Act 2001*⁵³ for example, requires that when an entity wishes to distribute a public document in electronic and paper form, that the ASIC requires the assurance practitioner's consent to also be obtained in both forms.⁵⁴
 - (c) Important deadlines/timelines for the completion of the assurance engagement. This may include deadlines such as

⁵³ See Section 716 of the *Corporations Act 2001*.

⁵⁴ See ASIC Regulatory Guide 107 *Electronic Prospectuses*.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

the expected date of publication of the public document, or other document.

- (d) Certain arrangements that are specific to the circumstances of the assurance engagement; for example, 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 (ordinarily as a member or observer of a due diligence committee);⁵⁵
 - (ii) use the service of experts;
 - (iii) receive draft and final versions of the public document, or other document, in order to be satisfied with the form and context in which the assurance report has been included in the public document, or other document, or in which the assurance practitioner has been named in such a document; and
 - (iv) communicate directly with the entity's external auditor, if applicable, and/or other professional advisers regarding matters relevant to the financial information, to be reported on in the assurance report.

Changes in the Terms of the Assurance Engagement (Ref: Para. 23)

- A14. Any change in agreed terms should be appropriately justified by the responsible party to the assurance practitioner's satisfaction before the assurance practitioner agrees to the change in the terms of engagement. A change in agreed terms that affects the intended users' needs, or a misunderstanding concerning the nature of the assurance engagement, would ordinarily justify a request for a change in the assurance engagement. If such a change is made, the assurance practitioner should not disregard evidence that was obtained prior to the change.

⁵⁵ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

A15. Changes to the agreed terms that may be unacceptable to the assurance practitioner include:

- (a) limiting time available to perform the engagement; preventing access to all relevant documents or persons requested; or
- (b) not providing documents when requested, leading to time constraints.

Planning the Assurance Engagement

A16. Planning the assurance engagement ordinarily involves obtaining an understanding of the nature of the financial information, its preparation, and other assurance engagement circumstances to identify and understand events and transactions that may have a significant impact on the financial information, or on the assurance report. The assurance practitioner is required to use professional judgment to determine the extent of the understanding that is needed of the nature of the financial information and other assurance engagement circumstances.⁵⁶ The assurance practitioner ordinarily considers whether the understanding is sufficient to assess the risks that the financial information may be materially misstated.
(Ref: Para. 25)

Nature and Extent of Planning Activities

A17. The nature, and extent of planning activities will vary according to the terms of the assurance engagement, and take into account the following activities, as applicable: (Ref: Para. 26(a)-26(b))

- (a) The terms of the assurance engagement.
- (b) An understanding of the nature of the financial information. This provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the assurance engagement. In some circumstances however, the assurance practitioner does not need to obtain a detailed understanding of the financial information. An example of this is where the engagement relates to a proposed corporate transaction in the form of a takeover or merger, where the assurance practitioner has no access to

⁵⁶ See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- the financial information of the target, or other entity to be merged, other than that available in the public domain.
- (c) The nature, characteristics, time period covered, and intended use of the financial information, and the applicable criteria used for its preparation.
 - (d) The underlying event(s) or transactions(s) which require the preparation of the financial information.
 - (e) Whether the assurance practitioner has audited or reviewed the entity's financial report(s) in prior period(s).
 - (f) The assurance practitioner's understanding of the entity, its business and operations, and its environment, including the risks that the financial information included in the public document, or other document, may be materially misstated.
 - (g) The size and complexity of the entity including its ownership, management structure, and its financial resources.
 - (h) The industry and economic environment within which it operates.
 - (i) Applicable laws and regulations primarily affecting its operations.
 - (j) Whether the entity is in a start-up phase, or has been in operation for a number of years and if so, its strategies for establishing and maintaining profitable operations.
 - (k) The evidence-gathering process and possible sources of evidence.
 - (l) Expertise requirements among the members of the assurance engagement team, and the nature and extent of experts or other specialised skills involvement, if any.⁵⁷ An expert may be internal (a partner or staff in the assurance practitioner's firm or network firm) or external. The assurance practitioner's expert is different from the expert

⁵⁷ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

that may have been engaged by the entity to assist the responsible party in preparing the financial information.

- (m) The nature, timing, and extent of communications that will be required with the responsible party, and their third party experts, and advisors.
- (n) Fraud risk considerations
- (o) Management resources that the entity is expecting to make available to assist with the process.

Previous experience with the entity (Ref: Para. 26(c))

A18. Where the assurance practitioner has previously performed an audit or review of the entity's previous period's financial reports, 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, I.T systems (including financial systems). This understanding would need to be updated to ensure it has not changed in the current period.

A19. Where:

- (a) the assurance practitioner has not audited or reviewed the entity's prior period financial report(s); or
- (b) the entity is in a start-up phase;

the assurance practitioner ordinarily expands their planning activities in order to be satisfied that the assurance practitioner will be able to obtain sufficient knowledge and understanding in order to meet the requirements of this ASAE.

Understanding the Nature of the Financial Information (Ref: Para. 26(d))

A20. Understanding the financial information may include:

- (a) understanding the significant accounting policies, used by the entity, particularly those related to recognition and measurement, and financial reporting practices, including the processes for selecting and approving the application of such policies and practices;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (b) understanding the accounting policies and key processes used in the preparation of the financial information in the public document or other document;
- (c) assessing the suitability of the accounting policies and principles used as applicable criteria for the preparation of the financial information in a public document or other document;
- (d) other relevant financial information available in the public domain;
- (e) 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;
- (f) establishing and evaluating the continued appropriateness of quantitative materiality levels, and where appropriate, considering qualitative materiality factors;
- (g) developing expectations for use when performing analytical procedures;
- (h) designing and performing further assurance procedures to reduce assurance engagement risk to an appropriate level; and
- (i) evaluating evidence, including the reasonableness of the responsible party's oral and written representations.

Reliability of the Source of the Underlying Data (Ref: Para. 26(g))

- A21. The assurance practitioner needs to consider the source of the underlying data used in the preparation of the financial information in terms of its reliability, and whether the underlying data has been previously audited or reviewed.

Materiality (Ref: Para. 27)

- A22. The assurance practitioner needs to consider materiality when planning and determining the nature, timing, and extent of assurance procedures, and when evaluating whether the financial information is free of misstatement. In determining materiality, the assurance practitioner needs to use professional judgement to understand and

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

assess what factors might influence the decisions of intended users of the financial information in evaluating the prospects of the entity.

- A23. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature, and extent of the effect of these factors on the evaluation of the financial information, and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in the assurance engagement are matters of professional judgement for the assurance practitioner.⁵⁸ Refer Appendix 3 for examples of the quantitative and qualitative factors of materiality.

Assurance Engagement Risk (Ref: Para.28)

- A24. In planning and performing the assurance engagement, appropriate consideration by the assurance practitioner of materiality and assurance engagement risk reduces the risk of expressing an inappropriate conclusion in the assurance report regarding the financial information to be included in the public document, or other document.
- A25. Ordinarily, assurance engagement risk comprises inherent risk, control risk and detection risk.⁵⁹ The assurance practitioner's consideration of these risk components is reflected in the assurance engagement evidence-gathering process and is affected by the assurance engagement circumstances; in particular the nature of the financial information included in the public document, or other document; and whether the assurance conclusion expressed in reasonable or limited assurance terms.

Assessing the Suitability of Applicable Criteria (Ref: Para.29)

- A26. As detailed in ASAE 3000⁶⁰, 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.

⁵⁸ 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.

⁵⁹ 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.

⁶⁰ See ASAE 3000, paragraphs 35-39 (inclusive).

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

These characteristics include relevance, completeness, reliability, neutrality, and understand ability. When dealing with financial information prepared for use in a corporate transaction, the responsible party ordinarily develops specific criteria to meet their requirements.

Reliance on the work of another Assurance Practitioner (Ref: Para. 30)

A27. Ordinarily, another assurance practitioner will not permit reliance to be placed on their auditor's report given the specific purpose for which the auditor's report was prepared and issued. 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.

A28. In situations where another assurance practitioner has performed an audit or review of the entity in respect of historical financial information that has been used as the base financial information, the assurance practitioner should consider the extent (if any) to which reliance can be placed on the work of the other assurance practitioner, taking into account:⁶¹

- (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.

⁶¹ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Procedures and Evidence

- A29. If the engagement terms include the assurance practitioner performing a review of historical financial information, the nature, timing, and extent of review procedures to be carried out may be influenced by various factors, including (Ref: Para. 31):
- (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 public document, or other 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 period);
 - (c) whether the source (for example, an audited or reviewed financial report) and period covered by the historical financial information is appropriate under the applicable criteria. The evaluation of the appropriateness of the source and the 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);
 - (e) whether there is a need to make adjustments previously considered immaterial in the prior period audit or review of the financial report;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (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.⁶² Such enquiries may relate to whether there were:
- (i) any changes in accounting policies, financial reporting practices and other reporting requirements that occurred during the 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 public document, or other 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. 33)

- A30. 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 financial information.

⁶² 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Evaluating the Sufficiency and Appropriateness of Evidence Obtained

(Ref: Para. 34)

A31. Sufficiency is the measure of the quantity of the evidence obtained by the assurance practitioner. Appropriateness is the measure of the quality of the evidence; that is, its relevance and its reliability.⁶³ A determination as to the sufficiency and appropriateness of evidence obtained is a matter of the assurance practitioner's professional judgement.

Other Information

Material Inconsistencies

A32. Material inconsistencies in other information that come to the assurance practitioners 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 a graph or table form). (Ref: Para. 34, 35)

A33. 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 revision, the assurance practitioner needs to consider whether to: (Ref: Para. 37, 38)

- (a) consider obtaining advice from the assurance practitioner's legal counsel;
- (b) include in the assurance report an Other Matter paragraph⁶⁴ that describes the material inconsistency; or
- (c) where applicable, withdraw consent to include the assurance report in the public document, or other document;
or

⁶³ 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.

⁶⁴ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (d) withdraw from the assurance engagement, where the withdrawal is possible under applicable law or regulation.

Material Misstatement of Fact

- A34. 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. (Ref: Para. 39)
- A35. When the assurance practitioner concludes that there is a material misstatement of fact that the responsible party refuses to correct, the assurance practitioner needs to consider whether to:
(Ref: Para 39, 40, 41)
- (a) obtain advice from the assurance practitioner's legal counsel;
 - (b) include in the assurance report an Other Matter paragraph⁶⁵ that describes the material misstatement of fact; or
 - (c) withdraw consent to include the assurance report in the public document, or other document; or
 - (d) withdraw from the assurance engagement, where the withdrawal is possible under applicable law or regulation.

Communications with the Responsible Party

- A36. The assurance practitioner should communicate matters relating to the financial information, that in their professional judgement require the responsible party to make a material adjustment to the financial information. Such communication may be orally or in writing, and should be done as soon as possible to enable the responsible party to investigate the matter and advise the assurance practitioner of their decision to adjust or not adjust the financial information. (Ref: Para. 42)

⁶⁵ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

A37. If the responsible party advises the assurance practitioner that they do not intend making the material adjustments identified to the financial information, the assurance practitioner should consider the implications for continuing the assurance engagement and for the assurance report, including modifying the assurance conclusion by using a qualified or adverse type of conclusion. (Ref: Para. 43)

Going Concern Considerations (Ref: Para. 44, 45)

A38. The assurance practitioner considers the appropriateness of the going concern assumption of the entity when the nature of the assurance engagement means that it could have implications for the assurance report. Assurance engagement's reporting only on the process to compile financial information do not require consideration of the entity's going concern.

A39. When considering whether the entity is a going concern⁶⁶, the assurance practitioner ordinarily takes into account the entity's forecasts, cash flow position, and the statement of financial position.

A40. If the prospects for profitability are not supported by adequate cash flows, then both the forecast of the statement of financial performance and the ongoing viability of the entity are at risk. There may, however, be mitigating factors that may, 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) when the fundraising (for example, a capital raising) will result in the entity becoming a going concern.

A41. Such 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 going concern assumption.

⁶⁶ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Consideration of Events Up to the Date of the Assurance Report

(Ref: Para. 46-47)

- A42. The extent of consideration by the assurance practitioner of events occurring after the date of performing assurance procedures and before the date of the assurance report (subsequent events) depends on:
- (a) the potential for such events to materially affect the financial information in the public document, or other document;
 - (b) the agreed terms of engagement on the reporting of subsequent events; and
 - (c) the requirements of applicable law, regulation, or professional standards.⁶⁷

Consideration of Events After the Date of the Assurance Report

(Ref: Para. 48- 49)

- A43. If there are material deficiencies, misleading statements, or significant matters omitted from the public document, or other 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,the assurance practitioner shall consider 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 another document:
 - (i) after it has been finalised and issued to its intended user(s), and

⁶⁷ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (ii) before the relevant date,

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

A44. If there are material deficiencies, misleading statements, or significant matters omitted from the public document, or other document: (Ref: Para. 49)

- (a) related to the financial information on which the assurance practitioner has opined in the assurance report;
- (b) which have been omitted by the entity from the public document, or other document;
- (c) which come to the assurance practitioner's attention after the relevant date; and
- (d) the entity has not amended the public document, or other 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 public document, or other document, and consider any reporting obligations that the assurance practitioner may have.

Written Representations

During the Conduct of the Assurance Engagement

A45. Written confirmation of oral representations reduces the possibility of misunderstandings between the assurance practitioner and the responsible party.⁶⁸ Throughout the assurance engagement, the responsible party may make oral representations to the assurance practitioner, either unsolicited or in response to specific enquiries. When such representations relate to matters that are material to the evaluation of the preparation of the financial information in the

⁶⁸ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

public document, or other document, 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.⁶⁹
- (d) Documents the key aspects of the oral representation.

A46. 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 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.

A47. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation of the financial information in the public document, or other 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.

Written Representation Letter at the Completion of the Engagement
(Ref: Para. 50, 51)

A48. The assurance practitioner needs to request, and obtain, a written representation letter from the responsible party at the completion of the assurance engagement. The written representation letter should be dated by the responsible party providing the letter, and received

⁶⁹ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

by the assurance practitioner, as soon as practical prior to the completion of the assurance engagement. (Ref: Para. 50)

- A49. 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 consider it appropriate in the engagement circumstances. Examples of matters may include an acknowledgement by the responsible party of: (Ref: Para. 51)
- (a) the agreed terms of the assurance engagement;
 - (b) their responsibility for:
 - (i) the preparation of the financial information for the periods stated, in accordance with the applicable criteria that was selected and determined by them;
 - (ii) all other information included in the public document, or other document, other than reports prepared by experts who have provided their consent for their inclusion;
 - (iii) the overall public document, or other 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 financial information; and that all such misstatements have been previously advised to the assurance practitioner;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (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 public document, or other document; and
- (g) that there are no material changes to the financial information between the date of the assurance report and the relevant date.

A50. Appendix 4 provides an illustrative written representation letter.

A51. 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. 54)

Concluding on the Engagement (Ref: Para. 55, 56)

- A52. The assurance practitioner's evaluation of the conclusions drawn from the evidence obtained during the assurance engagement takes account of:
- (a) whether the assurance practitioner has obtained sufficient appropriate evidence on which to form a conclusion;
 - (b) whether the assurance practitioner's planned level of assurance was limited or reasonable assurance on the financial information;
 - (c) whether the entity has complied with the recognition and measurements principles in the Australian Accounting Standards; and

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (d) whether the entity has been consistent with, and complied with, the accounting policies/principles adopted and disclosed.

Types of Conclusion in an Assurance Report

Unmodified Conclusions (Ref: Para. 57)

- A53. When the assurance practitioner concludes, on the basis of having obtained sufficient appropriate evidence that the financial information has been properly prepared by the responsible party based on the applicable criteria, the conclusion expressed in the assurance report is unmodified.
- A54. Appendix 5 contains illustrative examples of unmodified conclusions in an assurance report.

Modifications to the Conclusion in the Assurance Report (Ref: Para. 58)

- A55. 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, where practical to do so.
- A56. Appendix 5 contains illustrative examples of modified conclusions⁷⁰ in an assurance report.

Reporting on the Engagement

- A57. 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. 64)

Basic Elements of the Assurance Report (Ref: Para. 65)

- A58. The scope/background section of the assurance report may contain the following:

⁷⁰ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (a) Identification of the 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 financial information in the public document, or other document.
 - (c) Sources of the 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 public document, or other document.
- A59. If the assurance practitioner is preparing a composite assurance report the assurance practitioner needs to ensure:
- (a) that the different types of financial information are clearly identified in the public document, or other 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.
- A60. In respect of an assurance report that is being included in a public document prepared under 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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (c) appropriately positioned in the public document in relation to the financial information on which the assurance practitioner provides a conclusion.⁷¹

Consent to the Inclusion of the assurance report in a Public Document

(Ref: Para. 66, 67)

- A61. The *Corporations Act 2001* requires the assurance practitioner to consent to the form and context in which the assurance report is included in a public document.⁷² In view of this, the assurance practitioner reads the other information included in the public document to consider whether such information has material inconsistencies with the financial information that is the subject matter of the assurance report.

Documentation (Ref: Para. 68)

- A62. Sufficient appropriate documentation⁷³ should include a record of the assurance practitioner's reasoning on all significant matters that require the exercise of judgement, together with the assurance practitioner's conclusions thereon. In areas involving difficult questions of principle or judgement, the documentation should include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.
- A63. 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.

⁷¹ See ASIC's RG 170.

⁷² See Section 716 of the *Corporations Act 2001*.

⁷³ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Pro Forma Historical financial information

Agreeing on the Terms of the Assurance Engagement (Ref: Para. 70)

A64. 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 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 the selected stated basis of preparation.

Planning the Assurance Engagement

Understanding the Nature of the Financial Information (Ref: Para. **Error!**
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A65. Understanding the financial information may include assessing the suitability of the accounting policies and principles used as stated basis of preparation of the financial information in a public document or other document, as well as determining, for instance:

- (a) the appropriateness of any adjustments made to the historical financial information; or
- (b) the appropriateness of the pro forma adjustments; and
- (c) the suitability of the assumptions used as the basis for the preparation of the pro forma historical financial information;
- (d) other relevant financial information available in the public domain;
- (e) 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;
- (f) establishing and evaluating the continued appropriateness of quantitative materiality levels, and where appropriate, considering qualitative materiality factors;
- (g) developing expectations for use when performing analytical procedures;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (h) designing and performing further assurance procedures to reduce assurance engagement risk to an appropriate level; and
- (i) evaluating evidence, including the reasonableness of the responsible party's oral and written representations.

Reliability of the Source of the Underlying Data (Ref: Para. 73(a))

- A66. There are certain matters that the assurance practitioner needs to consider when planning an assurance engagement to examine pro forma financial information that is historical. These include:
- (a) 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;
 - (b) the nature of the pro forma adjustments (including consolidation adjustments) that have been made;
 - (c) the methodology used by the responsible party for the adjusting the historical financial information by the pro forma adjustments;
 - (d) whether the assurance practitioner should use the services of an expert, for example, in determining:
 - (i) the suitability of the stated basis of preparation, or determining
 - (ii) whether the pro forma adjustments were prepared in accordance with the stated basis of preparation;
 - (iii) evaluating particular pro forma adjustments (for example adjustments that are in nature complex or highly subjective);
 - (iv) the impact of contract provisions in business combinations as they relate to the preparation of the pro forma financial information.⁷⁴

⁷⁴ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Procedures and Evidence

- A67. When determining whether the historical financial information provides a reasonable basis for the pro forma historical financial information, the assurance practitioner may perform the following procedures: (Ref: Para. **Error! Reference source not found.**)
- (a) where appropriate and practicable, accessing and reading the audit/review working papers or related entity documentation, of the most recent audit or review of the entity's financial report to identify matters that may affect the historical financial information;
 - (b) reading the comparable prior period financial report and, as appropriate, the most recent annual or interim financial report;
 - (c) considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial report;
 - (d) enquiring as to whether the responsible party made any changes to the recognition and measurement accounting policies from the prior period, and if so, the nature of the change and its effect;
 - (e) considering significant financial reporting matters that may be of continuing significance, such as significant deficiencies in internal control;
 - (f) if appropriate, considering the results of any audit procedures performed with respect to the current year's financial report;
 - (g) considering the results of any internal audit or other monitoring performed by the entity with respect to financial reporting and the subsequent actions taken by the responsible party;
 - (h) enquiring of the responsible party about their assessment of the risk that the historical financial information may be materially misstated as a result of fraud;
 - (i) enquiring of the responsible party about the effect of changes in the entity's business activities;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (j) enquiring of the responsible party about any significant changes in internal control and the potential effect of any such changes on the preparation of the historical financial information; and
 - (k) enquiring of the responsible party about the process by which the historical financial information has been prepared and the reliability of the underlying accounting records to which such financial information is agreed or reconciled.
- A68. In respect of the pro forma adjustments made to the historical financial information, the assurance practitioner's procedures for examining the pro forma adjustments ordinarily include (Ref: Para. 75):
- (a) Nature of the adjustments. Adjustments can be either historical or on an "as if" basis. Historical adjustments reflect transaction results achieved in the actual time period in which they occurred; whereas "as if" adjustments reflect anticipated transactions or events.
 - (b) Materiality considerations. All pro forma adjustments considered material by the responsible party and the assurance practitioner should be reflected in the resultant pro forma financial information. Pro forma adjustments are ordinarily considered material if their omission causes the pro forma financial information to be misleading.
 - (c) Ensuring the pro forma adjustments are prepared on a basis consistent with appropriate recognition and measurement accounting principles/policies of the entity (for example as stated by the entity in its most recent financial report).
 - (d) Ensuring the pro forma adjustments have been made on a basis consistent with the applicable criteria.
 - (e) 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 or pro forma forecast financial information.
 - (f) All pro forma adjustments can be supported with evidence by the entity, and are relevant to the proposed corporate transaction.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- A69. Pro forma adjustments that have not yet happened or will not happen are not historical in nature. This is so even if they are made to reflect the indirect results of events or transactions as if they had been achieved in a prior period or earlier in the current period, rather than when they were actually achieved. An example is changes to financial costs as a result of new or revised fundraising structures. Such adjustments do, by nature, involve an element of assumption as to how the effect or results of the event or transaction would have been had it occurred in a different time.
- A70. In respect of the pro forma adjustments made to base financial information, the assurance practitioner's procedures for examining the pro forma adjustments ordinarily include:
- (a) Considering the nature of the adjustments. Adjustments can be either historical or on an "as if" basis. Historical adjustments reflect transaction results achieved in the actual time period in which they occurred; whereas "as if" adjustments reflect anticipated transactions or events.
 - (i) Adjustments to historical financial information should only be made to reflect transaction results achieved in the actual time period in which they occurred. This ensures the pro forma historical financial information remains based on actual historical financial information.
 - (ii) Pro forma adjustments that are made to reflect the results of events or transactions as if they had been achieved in a prior period or earlier in the current period, rather than when they were actually achieved, are not historical in nature. Examples include new or revised fundraising structures, or assuming a business was acquired at an earlier date. Such adjustments do, by nature, involve an element of assumption as to how the effect or results of the adjustment would have been had it occurred in a different time.
 - (b) Materiality considerations. All pro forma adjustments considered material by the responsible party and the assurance practitioner should be reflected in the resultant pro forma financial information. Pro forma adjustments are ordinarily considered material if their omission causes the pro forma financial information to be misleading.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (c) Ensuring the pro forma adjustments are prepared on a consistent basis to the appropriate recognition and measurement accounting principles/policies of the entity (for example as stated by the entity in its most recent financial report).
- (d) Ensuring the pro forma adjustments have been made on the basis consistent with the stated basis of preparation, as stated in the public document, or other document.
- (e) 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.
- (f) All pro forma adjustments can be supported with evidence by the entity.

Written Representations (Ref: Para. 78)

A71. Examples of matters in respect of the pro forma adjustments made to pro forma historical financial information 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 financial information for the periods stated, in accordance with the stated basis of preparation that was selected and determined by them;
 - (ii) selecting and applying any assumptions used in the preparation of the financial information, all of which have reasonable grounds;
 - (iii) all other information included in the public document, or other document, other than reports prepared by experts who have provided their consent for their inclusion;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Concluding on the Engagement (Ref: Para. 79)

- A72. The assurance practitioner's evaluation of the conclusions drawn from the evidence obtained during the assurance engagement takes account of:
- (a) whether the assurance practitioner has obtained sufficient appropriate evidence on which to form a conclusion;
 - (b) whether the assurance practitioner have obtained limited assurance that the pro forma historical financial information is prepared in all material respects in accordance with the stated basis of preparation, as stated in the public document, or other document, including:
 - (i) whether the entity has complied with the recognition and measurements principles in the Australian Accounting Standards; and
 - (ii) whether the entity has been consistent with, and complied with, the accounting policies/principles adopted and disclosed.

Types of Conclusions in the Assurance Report

- A73. When the assurance practitioner concludes, on the basis of having obtained sufficient appropriate evidence that the financial information has been properly prepared by the responsible party based on the stated basis of preparation, the conclusion expressed in the assurance report is unmodified.

Modifications to the Conclusion in the Assurance Report (Ref: Para. 80(b))

- A74. 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, where practical to do so.

Pro Forma Forecast and Forecast financial information

Agreeing on the Terms of the Assurance Engagement (Ref: Para. 83)

- A75. Ordinarily the assurance practitioner only provides limited assurance on pro forma forecast financial information, as the adjustments made to the base financial information are based on a stated basis of

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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 the selected stated basis of preparation.

Planning the Assurance Engagement

Understanding the Nature of the Financial Information (Ref: Para. 85(c))

- A76. Understanding the financial information may include:
- (a) understanding the significant accounting policies, used by the entity, particularly those related to recognition and measurement, and financial reporting practices, including the processes for selecting and approving the application of such policies and practices;
 - (b) assessing the suitability of the accounting policies and principles used as the stated basis of preparation of the financial information in a public document or other document, as well as determining, for instance:
 - (i) the appropriateness of any adjustments made to the financial information;
 - (ii) the appropriateness of the pro forma adjustments; the suitability of the assumptions used;
 - (c) 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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- ◆ the basis of preparation of the forecast financial information.
- (ii) If it has been sourced from a forecast, 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;
- (d) 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;
- (e) the accuracy of any forecast(s) prepared in prior periods and the reasons for material variances; (Ref: Para. 39-40)
- (f) the methods used to develop and apply the assumptions;
- (g) the nature of the documentation prepared by the entity supporting the assumptions used in the preparation of the pro forma forecast.
- (h) the nature of any pro forma adjustments (including consolidation adjustments) that have been made;
- (i) the methodology used by the responsible party for the combination of the base financial information with forecast financial information, and the pro forma adjustments;
- (j) other relevant financial information available in the public domain;
- (k) 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;
- (l) establishing and evaluating the continued appropriateness of quantitative materiality levels, and where appropriate, considering qualitative materiality factors;
- (m) developing expectations for use when performing analytical procedures;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (n) designing and performing further assurance procedures to reduce assurance engagement risk to an appropriate level; and
- (o) evaluating evidence, including the reasonableness of the responsible party's oral and written representations.

Procedures and Evidence (Ref: Para. 89)

A77. When determining whether the base financial information provides a reasonable basis for the pro forma financial information, the assurance practitioner needs to first distinguish whether it is a mix of historical and forecast financial information, before designing specific procedures for testing the appropriateness of its basis of preparation.

A78. If the base financial information is a mix of historical and forecast financial information, the assurance practitioner may perform the following procedures:

- (a) where appropriate and practicable, accessing and reading the audit working papers or related entity documentation, of the most recent audit or review of the entity's financial report to identify matters that may affect the historical financial information;
- (b) reading the comparable prior period financial report and, as appropriate, the most recent annual or interim financial report;
- (c) considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial report;
- (d) requiring as to whether the responsible party made any changes to the recognition and measurement accounting policies used in the preparation of the base financial information from the prior period, and if so, the nature of the change and its effect;
- (e) considering significant financial reporting matters that may be of continuing significance, such as significant deficiencies in internal control;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (f) if appropriate, considering the results of any audit procedures performed with respect to the current year's financial report;
 - (g) considering the results of any internal audit or other monitoring performed by the entity with respect to financial reporting and the subsequent actions taken by the responsible party;
 - (h) enquiring of the responsible party about their assessment of the risk that the historical financial information may be materially misstated as a result of fraud;
 - (i) enquiring of the responsible party about the effect of changes in the entity's business activities;
 - (j) enquiring of the responsible party about any significant changes in internal control and the potential effect of any such changes on the preparation of the historical financial information; and
 - (k) enquiring of the responsible party about the process by which the historical financial information has been prepared and the reliability of the underlying accounting records to which such financial information is agreed or reconciled.
- A79. If the base financial information is forecast financial information, the assurance practitioner needs to ensure that the forecast is properly prepared based on the responsible party's stated assumptions and assess the source and reliability of the evidence supporting the responsible party's best-estimate assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity's capacity. Such an assessment may include performing the following procedures:
- (a) 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 (prospective financial information is properly

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

prepared based on the responsible party's stated assumptions);

- (b) consider the extent to which areas that are particularly sensitive to variation will have a material effect on the results shown in the prospective financial information. This will influence the extent to which the assurance practitioner will seek appropriate evidence. It will also influence the assurance practitioner's evaluation of the appropriateness and adequacy of the basis of preparation of the pro forma forecast financial information;
- (c) time period covered by the forecast. Assumptions become more speculative as the length of the period covered increases, and as that period lengthens, the ability of the responsible party to make best-estimate assumptions that have a reasonable basis decreases. The following are some of the factors that are relevant to the assurance practitioner's consideration: (Ref: Para. 48)
 - (i) The operating cycle of the entity, for example, in the case of a major construction project, the time required to complete the project may dictate the period covered.
 - (ii) The degree of reliability of assumptions, for example, if the entity is introducing a new product, the forecast 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 period might be reasonable. It will also include considering:
 - ◆ the validity of the assumptions on which the forecast is based;
 - ◆ the likelihood of the assumptions actually occurring; and
 - ◆ the effect on the forecast if the assumptions vary.
 - (iii) The needs of users, for example, the pro forma forecast may be prepared for investors in

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

connection with the sale of debentures as a fundraising activity to illustrate the intended use of the proceeds in subsequent period(s).

- (iv) The degree of accuracy in the forecast as compared to actual results achieved.
 - (v) Whether there are legal or regulatory requirements and/or other authoritative guidance in respect of an acceptable time period for a forecast to cover.⁷⁵
 - (d) Whether any elapsed portion of the current period is included in the forecast financial information. The assurance practitioner's procedures will vary depending on the circumstances, for example, how much of the forecast period has elapsed.
- A80. In respect of the pro forma adjustments made to base financial information, the assurance practitioner's procedures for examining the pro forma adjustments ordinarily include:
- (a) Considering the nature of the adjustments. If they are made to reflect the results of events or transactions as if they had been achieved in a prior period or earlier in the current period, they are forecast in nature. Examples include new or revised fundraising structures, or assuming a business was acquired at an earlier date. Such adjustments do, by nature, involve an element of assumption as to how the effect or results of the adjustment would have been had it occurred in a different time.
 - (b) Materiality considerations. All pro forma adjustments considered material by the responsible party and the assurance practitioner should be reflected in the resultant pro forma financial information. Pro forma adjustments are ordinarily considered material if their omission causes the pro forma financial information to be misleading.
 - (c) Ensuring the pro forma adjustments are prepared on a consistent basis to the appropriate recognition and measurement accounting principles/policies of the entity

⁷⁵ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

(for example as stated by the entity in its most recent financial report).

- (d) Ensuring the pro forma adjustments have been made on the basis consistent with the stated basis of preparation, as stated in the public document, or other document.
- (e) 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 or pro forma forecast financial information.
- (f) All pro forma adjustments can be supported with evidence by the entity, and are relevant to the proposed corporate transaction.

A81. In addition to the specific requirements of any applicable law, regulation, or professional standards, the assurance practitioner also needs to consider whether:

- (a) the preparation of the pro forma forecast is on a reasonable basis and is not misleading;
- (b) any disclosure of the recognition and measurement accounting policies applied in the preparation of the pro forma forecast is consistent with the assurance practitioner's understanding. When examining the appropriateness of the accounting principles used the assurance practitioner's considers whether those principles have been taken from accounting standards, which have been, or are proposed to be, superseded by the Australian Accounting Standards Board (AASB). In such cases, the assurance practitioner needs to consider the impact of such changes on the underlying recognition and measurement of the financial information, even though there is no opinion required to be expressed on the pro forma forecast being prepared in accordance with such accounting standards.
- (c) the material assumptions underlying the base financial information are adequately disclosed. The issuer of the public document, or other document, needs to:
 - o clearly indicate that the assumptions represent the responsible party's best-estimate; and

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- confirm that such assumptions are not subject to a high degree of uncertainty;
 - (d) the date as of which the pro forma forecast was prepared is disclosed in the public document, or other document. The responsible party needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time; and
 - (e) any change in accounting policy since the most recent historical financial report is disclosed, along with the reason for the change, and its effect on the pro forma forecast.
- A82. In respect of the pro forma adjustments made to base financial information, the assurance practitioner's procedures for examining the pro forma adjustments ordinarily include:
- (a) Nature of the adjustments. Adjustments can be either historical or on an "as if" basis. Historical adjustments reflect transaction results achieved in the actual time period in which they occurred; whereas "as if" adjustments reflect anticipated transactions or events.
 - (b) Materiality considerations. All pro forma adjustments considered material by the responsible party and the assurance practitioner should be reflected in the resultant pro forma financial information. Pro forma adjustments are ordinarily considered material if their omission causes the pro forma financial information to be misleading.
 - (c) Ensuring the pro forma adjustments are prepared on a consistent basis to appropriate recognition and measurement accounting principles/policies of the entity (for example as stated by the entity in its most recent financial report).
 - (d) Ensuring the pro forma adjustments have been made on the basis consistent with the applicable criteria, as stated in the public document, or other document.
 - (e) Confirming the mathematical accuracy of the calculations performed in deriving and applying the pro forma adjustments to the forecast in order to produce a pro forma forecast.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (f) Ensuring all pro forma adjustments can be supported with evidence by the entity.

A83. The assurance practitioner should review how the pro forma forecast financial information is disclosed in the public document, or other document, in order to assess whether the responsible party has included clear statements that such financial information is by nature predictive, given it is based on assumptions, and the actual results may differ materially from the forecast.⁷⁶

- (a) If it has been sourced from a forecast, 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.
- (b) If the assurance practitioner has previous knowledge of the entity's historical financial information, this may be used to provide a yardstick for assessing the reasonableness of the assumptions used in the preparation of the pro forma forecast.
- (c) The accuracy of any forecast(s) prepared in prior periods and the reasons for material variances. (Ref: Para. 39-40)
- (d) The methods used to develop and apply the assumptions.
- (e) The nature of the documentation prepared by the entity supporting the assumptions used in the preparation of the pro forma forecast.
- (f) The nature of any pro forma adjustments (including consolidation adjustments) that have been made.
- (g) The methodology used by the responsible party for the combination of the base financial information with forecast financial information, and the pro forma adjustments.

Written Representations (Ref: Para. 91)

A84. The assurance practitioner needs to request, and obtain, a written representation letter from the responsible party at the completion of the assurance engagement. The assurance practitioner ordinarily

⁷⁶ See RG 170, para 170.88.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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 consider 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 financial information for the periods stated, in accordance with the stated basis of preparation that was selected and determined by them;
 - (ii) selecting and applying any assumptions used in the preparation of the financial information, all of which have reasonable grounds;
 - (iii) all other information included in the public document, or other document, other than reports prepared by experts who have provided their consent for their inclusion;
 - (iv) the overall public document, or other 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) all information requested by the assurance practitioner has been provided;
- (d) that any uncorrected misstatements are immaterial, either individually or in aggregate to the financial information; and that all such misstatements have been previously advised to the assurance practitioner;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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

Concluding on the Engagement (Ref: Para. 92)

- A85. The assurance practitioner's evaluation of the conclusions drawn from the evidence obtained during the assurance engagement takes account of:
- (a) whether the assurance practitioner has obtained sufficient appropriate evidence on which to form a conclusion;
 - (b) whether the assurance practitioner have obtained limited assurance that the financial information is prepared in all material respects in accordance with the stated basis of preparation, as stated in the public document, or other document, including:
 - (i) whether the entity has complied with the recognition and measurements principles in the Australian Accounting Standards; and
 - (ii) whether the entity has been consistent with, and complied with, the accounting policies/principles adopted and disclosed.
- A86. The assurance practitioner does not express a conclusion on hypothetical assumptions because, by their nature, sufficient appropriate evidence is not available to the assurance practitioner to support those hypothetical assumptions.
- A87. The assurance practitioner is required to assess whether the assurance practitioner has obtained sufficient appropriate evidence on which to form a limited assurance conclusion on the

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

reasonableness of the responsible party's assumptions. 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. The assurance practitioner is therefore not in a position to conclude, and express a conclusion 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.

- A88. Given the nature of the evidence available in assessing the reasonableness of the assumptions on which the prospective financial information is based, it may be difficult for the assurance practitioner to obtain a level of satisfaction sufficient to express a conclusion of reasonable assurance that the assumptions are free of material misstatement. Consequently, when reporting on the reasonableness of the responsible party's assumptions, the assurance practitioner ordinarily provides only a limited level of assurance by issuing a statement of negative assurance on best-estimate assumptions.

Types of Conclusions in the Assurance Report

- A89. When the assurance practitioner concludes, on the basis of having obtained sufficient appropriate evidence that the financial information has been properly prepared or compiled by the responsible party based on the stated basis of preparation, the conclusion expressed in the assurance report is unmodified.
- A90. Appendix 5 contains illustrative examples of unmodified conclusions in an assurance report.

Modifications to the Conclusion in the Assurance Report (Ref: Para. 93(b))

- A91. 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, where practical to do so.
- A92. Although the issuance of a modified conclusion in the assurance report is likely to be rare, there may be instances when the assurance practitioner believes such a conclusion is appropriate.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

A93. Appendix 5 contains illustrative examples of modified conclusions⁷⁷ in an assurance report.

Reporting on the Engagement

A94. 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 on two or more of types of financial information (for example historical and prospective financial information). (Ref: Para. 83)

Basic Elements of the Assurance Report (Ref: Para. 94)

A95. The scope/background section of the assurance report may contain the following:

- (a) Identification of the 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 financial information in the public document, or other document;
- (c) Sources of the 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 public document, or other document.

A96. If the assurance practitioner is preparing a composite assurance report the assurance practitioner needs to ensure:

⁷⁷ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (a) that the different types of financial information are clearly identified in the public document, or other 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.
- A97. In respect of an assurance report that is being included in a public document prepared under 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.⁷⁸
- A98. The date of the assurance report on prospective financial information should be the date that the assurance practitioner completed the

Aggregated financial information

Assurance Engagement Acceptance

Preconditions for Acceptance (Ref: Para. 95)

- A99. The responsible party is ultimately responsible for the preparation and presentation of all information in the public document, or other document. The exception to this general rule is that the responsible party is not responsible for reports prepared by other parties/experts which are included in the public document, or other document, with the consent of those other parties/experts. This responsibility includes any assumptions and applied criteria used as the basis for the financial information. 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 public document or other document; however it is the responsible party who retains responsibility for such information.

⁷⁸ See ASIC's RG 170.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- A100. Acknowledgement by the responsible party in writing via acceptance of the engagement letter provides evidence that the appropriate relationship exists, and establishes a basis for a common understanding of the responsibility of each party. A written acknowledgement is the most appropriate form of documenting the responsible party's understanding of its responsibilities.
- A101. 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*,⁷⁹ the directors of an entity are deemed responsible for the financial information included in a public document used in offering securities.
- A102. The assurance practitioner should not accept an assurance engagement unless the assurance practitioner is satisfied that there is a rational purpose for such engagement. For example:
- (a) if there is a significant limitation on the scope of the assurance practitioner's work; or
 - (b) 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;
- it may be unlikely that the assurance engagement has a rational purpose.
- A103. In circumstances where the assurance practitioner is a member of a firm which is also providing other non-assurance related services to the entity relating to the proposed corporate transaction, 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. Such non-assurance services commonly provided include the preparation of taxation information and other consulting services. The provision of such non-assurance

⁷⁹ See Section 717 of the *Corporations Act 2001* for an overview of the procedures for offering securities.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

services by the assurance practitioner is not within the scope of this ASAE.

- A104. If the responsible party is not also the engaging party (the party that engaged the services of the assurance practitioner to perform the assurance engagement), the assurance practitioner ordinarily considers the effect of this on access to records, documentation and other information the assurance practitioner may need to complete the assurance engagement.
- A105. The assurance practitioner exercises professional judgement in what assurance procedures are summarised in the engagement letter, taking into account the nature of the financial information that the assurance practitioner has been requested to opine on, and the engagement circumstances.

Agreeing on the Terms of the Assurance Engagement

- A106. To avoid misunderstandings, the agreed terms of the assurance engagement need to be recorded in an assurance engagement letter or other suitable form of contract. The responsible party who signs the engagement letter should be the ultimate responsible party of the entity, or an authorised representation/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 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.
- A107. Appendix X provides an illustrative sample engagement letter for an assurance engagement in connection with proposed corporate transactions. It can be adapted to engagements involving the aggregation of any type of financial information. (Ref: Para. 97)
- A108. The assurance engagement letter between the responsible party and the assurance practitioner needs to include the agreed engagement terms as required in paragraph 99 of this ASAE. It also ordinarily includes:
- (a) A statement that the assurance practitioner is independent of the responsible party, and of the financial information that is the subject of the assurance engagement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (b) A statement that the assurance practitioner is not responsible for the prospective financial information or for determining the assumptions to be used by the responsible party in the preparation of the prospective financial information.
- (c) The nature of any published consent given by the assurance practitioner in relation to the form and context of statements made in a public document, or other document. *The Corporations Act 2001*⁸⁰ for example, requires that when an entity wishes to distribute a public document in electronic and paper form, that the ASIC requires the assurance practitioner's consent to also be obtained in both forms.⁸¹
- (d) Important deadlines/timelines for the completion of the assurance engagement. This may include deadlines such as the expected date of publication of the public document, or other document.
- (e) Certain arrangements that are specific to the circumstances of the assurance engagement; for example, 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 (ordinarily as a member or observer of a due diligence committee);⁸²
 - (ii) use the service of experts;
 - (iii) receive draft and final versions of the public document, or other document, in order to be satisfied with the form and context in which the assurance report has been included in the public document, or other document, or in which the assurance practitioner has been named in such a document; and

⁸⁰ See Section 716 of the *Corporations Act 2001*.

⁸¹ See ASIC Regulatory Guide 107 *Electronic Prospectuses*.

⁸² 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (iv) communicate directly with the entity's external auditor, if applicable, and/or other professional advisers regarding matters relevant to the financial information, to be reported on in the Investigating Accountants Report.

Changes in the Terms of the Assurance Engagement

- A109. A change in the nature of the assurance engagement may be, for example, from an assurance engagement to a non-assurance engagement or, from a reasonable assurance engagement to a limited assurance engagement. Such a change should be appropriately justified by the responsible party to the assurance practitioner's satisfaction before the assurance practitioner agrees to the change in the terms of engagement. A change in agreed terms that affects the intended users' needs, or a misunderstanding concerning the nature of the assurance engagement, ordinarily will justify a request for a change in the assurance engagement. If such a change is made, the assurance practitioner should not disregard evidence that was obtained prior to the change. (Ref: Para. 100)
- A110. Changes to the agreed terms that may be unacceptable to the assurance practitioner include limiting time available to perform the engagement; preventing access to all relevant documents or persons requested; or not providing documents when requested leading to time constraints. (Ref: Para. 101-102)

Planning the Assurance Engagement

- A111. Planning the assurance engagement ordinarily involves obtaining an understanding of the nature of the financial information that is the subject of the aggregation, its preparation, and other assurance engagement circumstances to identify and understand events and transactions that may have a significant impact on the financial information, or on the assurance report. The assurance practitioner is required to use professional judgment to determine the extent of the understanding that is needed of the nature of the financial information and other assurance engagement circumstances.⁸³ The assurance practitioner ordinarily considers whether the understanding is sufficient to assess the risks that the financial information may be materially misstated. (Ref: Para. 103)

⁸³ See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Nature and Extent of Planning Activities

- A112. The nature, and extent of planning activities will vary according to the terms of the assurance engagement, and take into account the following activities, as applicable: (Ref: Para. 104)
- (a) The terms of the assurance engagement.
 - (b) The underlying event(s) or transactions(s) which require the preparation of the financial information.
 - (c) An basic understanding of the nature and source of the financial information aggregated by the responsible party. Obtaining an basic understanding of type of financial information that has been aggregated provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the assurance engagement.
 - (i) If the underlying financial information is historical, the responsible party determines the applicable criteria used to aggregate the information; or
 - (ii) If the underlying financial information is pro forma, the responsible party determines the stated basis of preparation used to aggregate the information
- The assurance practitioner does not need to evaluate the appropriateness of the either the applicable criteria or the stated basis of preparation as part of the terms of the assurance engagement.
- (d) The steps undertaken by the responsible party to.
 - (i) Extract the financial information from the source.
 - (ii) Where the financial information is pro forma, how any pro forma adjustments are identified to reflect the impacts of the transaction(s) and/or event(s) on the aggregated pro forma financial information.
 - (iii) The responsible party's competence in undertaking the aggregation.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (iv) The responsible party's approach to identifying appropriate documents to support the aggregation.
- (v) The time period covered, and intended use of the aggregated financial information.
- (e) The nature, timing, and extent of communications that will be required with the responsible party, and their third party experts, and advisors.
- (f) Fraud risk considerations.
- (g) Management resources that the entity is expecting to make available to assist with the process.

Materiality (Ref: Para. 105)

A113. The assurance practitioner needs to consider materiality when planning and determining the nature, timing, and extent of assurance procedures, and when evaluating whether the aggregated financial information is free of misstatement. In determining materiality, the assurance practitioner needs to use professional judgement to understand and assess what factors might influence the decisions of intended users of the financial information in evaluating the prospects of the entity.

A114. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature, and extent of the effect of these factors on the evaluation of the financial information, and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in the assurance engagement are matters of professional judgement for the assurance practitioner.⁸⁴ Refer Appendix 3 for examples of quantitative and qualitative factors.

Assurance Engagement Risk (Ref: Para.106)

A115. In planning and performing the assurance engagement, appropriate consideration by the assurance practitioner of materiality and assurance engagement risk reduces the risk of expressing an inappropriate conclusion in the assurance report regarding the

⁸⁴ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

financial information to be included in the public document, or other document.

- A116. In general, assurance engagement risk comprises inherent risk, control risk and detection risk.⁸⁵ The assurance practitioner's consideration of these components is reflected in the assurance engagement evidence-gathering process and is affected by the assurance engagement circumstances, in particular the nature of the financial information included in the public document, or other document, and whether the conclusion being expressed in the assurance report is reasonable or limited assurance.

Procedures and Evidence (Ref: Para. 110-111)

- A117. Evidence obtained by the assurance practitioner must be sufficient and appropriate in the circumstance of the engagement, and taking into account the level of assurance required:
- (a) Appropriateness of the evidence is the measure of the quality of assurance evidence; that is, its relevance and its reliability in providing support for the conclusions on which the assurance practitioner's opinion is based.
 - (b) Sufficiency of the evidence is the measure of the quantity of assurance evidence. The quantity of the assurance evidence needed is affected by the assessment of the risks of material misstatement and also by the quality of such assurance evidence.
- A118. In respect of any adjustments made, the assurance practitioner should
- (a) ensure the pro forma adjustments have been made on a basis consistent with the applicable criteria or the stated basis of preparation (pro forma financial information); and
 - (b) confirm the mathematical accuracy of the calculations performed in deriving and applying the pro forma adjustments to the historical financial information in order

⁸⁵ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

to produce the pro forma historical or pro forma forecast financial information.

Evaluating the Sufficiency and Appropriateness of Evidence Obtained
(Ref: Para. 112)

A119. Sufficiency is the measure of the quantity of the evidence obtained by the assurance practitioner. Appropriateness is the measure of the quality of the evidence; that is, its relevance and its reliability.⁸⁶ A determination as to the sufficiency and appropriateness of evidence is a matter of professional judgement.

Other Information

Material Inconsistencies (Ref: Para. 113-116)

A120. Material inconsistencies in other information that come to the assurance practitioners 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 a graph or table form).

A121. 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 revision, the assurance practitioner needs to consider whether to:

- (a) consider obtaining advice from the assurance practitioner's legal counsel;
- (b) include in the assurance report an Other Matter paragraph⁸⁷ that describes the material inconsistency; or
- (c) where applicable, withdraw consent to include the assurance report in the public document, or other document; or

⁸⁶ 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.

⁸⁷ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (d) withdraw from the assurance engagement, where the withdrawal is possible under applicable law or regulation.

Material Misstatements of Fact (Ref: Para. 117-119)

- A122. 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.
- A123. When the assurance practitioner concludes that there is a material misstatement of fact that the responsible party refuses to correct, the assurance practitioner needs to consider whether to:
- (a) obtain advice from the assurance practitioner's legal counsel;
 - (b) include in the assurance report an Other Matter paragraph⁸⁸ that describes the material misstatement of fact; or
 - (c) withdraw consent to include the assurance report in the public document, or other document; or
 - (d) withdraw from the assurance engagement, where the withdrawal is possible under applicable law or regulation.

Communications with the Responsible Party

- A124. The assurance practitioner should communicate matters relating to the financial information, that in their professional judgement require the responsible party to make a material adjustment to the financial information. Such communication may be orally or in writing, and should be done as soon as possible to enable the responsible party to investigate the matter and advise the assurance practitioner of their decision to adjust or not adjust the financial information. (Ref: Para. 120)

⁸⁸ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

A125. If the responsible party advises the assurance practitioner that they do not intend making the material adjustments identified to the financial information, the assurance practitioner should consider the implications for continuing the assurance engagement and for the assurance report, including modifying the assurance conclusion by using a qualified or adverse type of conclusion. (Ref: Para. 121)

Consideration of Events Up to the Date of the assurance report

(Ref: Para. 124-125)

- A126. The extent of consideration by the assurance practitioner of events occurring after the date of performing assurance procedures and before the date of the assurance report (subsequent events) depends on:
- (a) the nature of the financial information. Consideration of subsequent events may not be relevant or appropriate where it is pro forma historical financial, because it is intended to illustrate the effect of an event or transaction on historical financial information at a certain point in time;
 - (b) the potential for such events to materially affect the financial information in the public document, or other document;
 - (c) the agreed terms of engagement on the reporting of subsequent events; and
 - (d) the requirements of applicable law, regulation, or professional standards.⁸⁹

Consideration of Events After the Date of the Assurance Report

A127. If there are material deficiencies, misleading statements, or significant matters omitted from the public document, or other document, which come to the assurance practitioner's attention after:
(Ref: Para. 126)

- (a) in the case of the public document – after it has been lodged with the appropriate regulatory body, and before the relevant date, the assurance practitioner shall consider the implications for the assurance report, as well as any

⁸⁹ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

reporting obligations the assurance practitioner may have to inform the entity making the offer; or

- (b) in the case of the other document – after it has been finalised and issued to its intended user(s), and before the relevant date, the assurance practitioner shall consider the implications for the assurance report, as well as any reporting obligations the assurance practitioner may have to inform the entity making the offer.

A128. If there are material deficiencies, misleading statements, or significant matters omitted from the public document, or other document: (Ref: Para. 127)

- (a) related to the financial information on which the assurance practitioner has opined in the assurance report;
- (b) which have been omitted by the entity from the public document, or other document;
- (c) which come to the assurance practitioner's attention after the relevant date; and
- (d) the entity has not amended the public document, or other 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 public document, or other document, and consider any reporting obligations that the assurance practitioner may have.

Written Representations (Ref: Para. 128)

A129. The assurance practitioner needs to request, and obtain, a written representation letter from the responsible party at the completion of the assurance engagement. The written representation letter should be dated by the responsible party providing the letter, and received by the assurance practitioner, as soon as practical prior to the completion of the assurance engagement.

A130. 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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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 consider 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) their responsibility for the selection of the aggregated financial information;
 - (ii) where the financial information is in the form of pro forma financial information, the responsible party has identified and applied all materially appropriate pro forma adjustments to the financial information; and that the resultant aggregated financial information reflects this; or
 - (iii) where the financial information is in the form of aggregated forecast information, any adjustments made to the financial information have reasonable grounds;
 - (iv) selecting and applying any assumptions used in the preparation of the financial information, all of which have reasonable grounds;
 - (v) all other information included in the public document, or other document, other than reports prepared by experts who have provided their consent for their inclusion;
 - (vi) the overall public document, or other document;
 - (vii) the establishment and maintenance of proper internal control related to financial reporting;
 - (viii) the maintenance of proper financial records and systems which facilitate the preparation of the financial information;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (c) all information requested by the assurance practitioner has been provided;
- (d) that there are no material changes to the financial information between the date of the assurance report and the relevant date.

A131. Appendix 4 provides an illustrative written representation letter.

A132. 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. 129)

Concluding on the Engagement (Ref: Para. 133-134)

A133. The assurance practitioner's evaluation of the conclusions drawn from the evidence obtained during the assurance engagement takes account of:

- (a) whether the assurance practitioner has obtained sufficient appropriate evidence on which to form a conclusion;
- (b) whether the assurance practitioner have obtained limited assurance that the financial information is prepared in all material respects in accordance with the applied criteria [or in accordance with the stated basis of preparation, as applicable], as stated in the public document, or other document.

Types of Conclusions in the Assurance Report

A134. When the assurance practitioner concludes, on the basis of having obtained sufficient appropriate evidence that the financial information has been properly aggregated by the responsible party based on the applicable criteria [or in the case of pro forma financial information, the stated basis of preparation], the conclusion expressed in the assurance report is unmodified.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

A135. Appendix 5 contains illustrative examples of unmodified conclusions in an assurance report.

Modifications to the Conclusion in the Assurance Report (Ref: Para. 135(b))

A136. 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, where practical to do so.

A137. Although the issuance of a modified conclusion in the assurance report is likely to be rare, there may be instances when the assurance practitioner believes such a conclusion is appropriate.

A138. Appendix 5 contains illustrative examples of modified conclusions⁹⁰ in an assurance report.

Reporting on the Engagement

Basic Elements of the Assurance Report (Ref: Para. 144)

A139. The scope/background section of the assurance report may contain the following:

- (a) Identification of the 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 financial information in the public document, or other document;
- (c) Sources of the 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

⁹⁰ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

report is addressed in the public document, or other document.

- A140. In respect of an assurance report that is being included in a public document prepared under 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.
- A141. The date of the assurance report should be the date that the assurance practitioner completed the assurance procedures on the aggregated financial information.
- A142. Where the aggregated financial information involves pro forma historical financial information, this ordinarily results in the assurance practitioner providing limited assurance that the basis of the aggregated pro forma historical financial information was in accordance with the stated basis of preparation. This applied stated basis of preparation, is typically disclosed in the public document, or other document. No assurance is expressed on the aggregated pro forma financial information being prepared, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and the accounting policies adopted by the respective entities.

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

(Ref: Para. 145-146)

- A143. The *Corporations Act 2001* requires the assurance practitioner to consent to the form and context in which the assurance report is included in a public document.⁹¹ In view of this, the assurance practitioner reads the other information included in the public document to consider whether such information has material inconsistencies with the financial information that is the subject matter of the assurance report.

⁹¹ See Section 716 of the *Corporations Act 2001*.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Documentation (Ref: Para. 147)

- A144. Sufficient appropriate documentation⁹² should include a record of the assurance practitioner's reasoning on all significant matters that require the exercise of judgement, together with the assurance practitioner's conclusions thereon. In areas involving difficult questions of principle or judgement, the documentation should include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.
- A145. 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.

Reporting on the process to compile financial information

Assurance Engagement Acceptance (Ref: Para. 148)

Preconditions for Acceptance

- A146. The responsible party is ultimately responsible for the preparation and presentation of all information in the public document, or other document. The exception to this general rule is that the responsible party is not responsible for reports prepared by other parties/experts which are included in the public document, or other document, with the consent of those other parties/experts. This responsibility includes any assumptions and applied criteria used as the basis for the financial information. 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 public document or other document; however it is the responsible party who retains responsibility for such information.

⁹² 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- A147. Acknowledgement by the responsible party in writing via acceptance of the engagement letter provides evidence that the appropriate relationship exists, and establishes a basis for a common understanding of the responsibility of each party. A written acknowledgement is the most appropriate form of documenting the responsible party's understanding of its responsibilities.
- A148. 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*,⁹³ the directors of an entity are deemed responsible for the financial information included in a public document used in offering securities.
- A149. The assurance practitioner should not accept an assurance engagement unless the assurance practitioner is satisfied that there is a rational purpose for such engagement. For example:
- (a) if there is a significant limitation on the scope of the assurance practitioner's work; or
 - (b) 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;
- it may be unlikely that the assurance engagement has a rational purpose.
- A150. In circumstances where the assurance practitioner is a member of a firm which is also providing other non-assurance related services to the entity relating to the proposed corporate transaction, 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. Such non-assurance services commonly provided include the preparation of taxation information and other consulting services. The provision of such non-assurance

⁹³ See Section 717 of the *Corporations Act 2001* for an overview of the procedures for offering securities.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

services by the assurance practitioner is not within the scope of this ASAE.

- A151. If the responsible party is not also the engaging party (the party that engaged the services of the assurance practitioner to perform the assurance engagement), the assurance practitioner ordinarily considers the effect of this on access to records, documentation and other information the assurance practitioner may need to complete the assurance engagement.
- A152. The assurance practitioner exercises professional judgement in what assurance procedures are summarised in the engagement letter, taking into account the nature of the financial information that the assurance practitioner has been requested to opine on, and the engagement circumstances.

Agreeing on the Terms of the Assurance Engagement

- A153. To avoid misunderstandings, the agreed terms of the assurance engagement need to be recorded in an assurance engagement letter or other suitable form of contract. The responsible party who signs the engagement letter should be the ultimate responsible party of the entity, or an authorised representation/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 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. 150)
- A154. Appendix X provides an illustrative sample engagement letter for an assurance engagement in connection with proposed corporate transactions. It can be adapted to engagements involving the examination of prospective financial information.
- A155. The assurance engagement letter between the responsible party and the assurance practitioner needs to include the agreed engagement terms as required in paragraph 152 of this ASAE. It also ordinarily includes: (Ref: Para. 152)
- (a) A statement that the assurance practitioner is independent of the responsible party, and of the financial information that is the subject of the assurance engagement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (b) The nature of any published consent given by the assurance practitioner in relation to the form and context of statements made in a public document, or other document. *The Corporations Act 2001*⁹⁴ for example, requires that when an entity wishes to distribute a public document in electronic and paper form, that the ASIC requires the assurance practitioner's consent to also be obtained in both forms.⁹⁵
- (c) Important deadlines/timelines for the completion of the assurance engagement. This may include deadlines such as the expected date of publication of the public document, or other document.
- (d) Certain arrangements that are specific to the circumstances of the assurance engagement; for example, 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 (ordinarily as a member or observer of a due diligence committee);⁹⁶
 - (ii) use the service of experts;
 - (iii) receive draft and final versions of the public document, or other document, in order to be satisfied with the form and context in which the assurance report has been included in the public document, or other document, or in which the assurance practitioner has been named in such a document; and
 - (iv) communicate directly with the entity's external auditor, if applicable, and/or other professional advisers regarding matters relevant to the financial information, to be reported on in the Investigating Accountants Report.

⁹⁴ See Section 716 of the *Corporations Act 2001*.

⁹⁵ See ASIC Regulatory Guide 107 *Electronic Prospectuses*.

⁹⁶ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Changes in the Terms of the Assurance Engagement (Ref: Para. 153-155)

- A156. A change in the nature of the assurance engagement may be, for example, from an assurance engagement to a non-assurance engagement or, from a reasonable assurance engagement to a limited assurance engagement. Such a change should be appropriately justified by the responsible party to the assurance practitioner's satisfaction before the assurance practitioner agrees to the change in the terms of engagement. A change in agreed terms that affects the intended users' needs, or a misunderstanding concerning the nature of the assurance engagement, ordinarily will justify a request for a change in the assurance engagement. If such a change is made, the assurance practitioner should not disregard evidence that was obtained prior to the change.
- A157. Changes to the agreed terms that may be unacceptable to the assurance practitioner include limiting time available to perform the engagement; preventing access to all relevant documents or persons requested; or not providing documents when requested leading to time constraints.

Planning the Assurance Engagement

- A158. Planning the assurance engagement ordinarily involves obtaining an understanding of the nature of the financial information, its preparation, and other assurance engagement circumstances to identify and understand events and transactions that may have a significant impact on the financial information, or on the assurance report. The assurance practitioner is required to use professional judgment to determine the extent of the understanding that is needed of the nature of the financial information and other assurance engagement circumstances.⁹⁷ The assurance practitioner ordinarily considers whether the understanding is sufficient to assess the risks that the financial information may be materially misstated. (Ref: Para. 156)

Nature and Extent of Planning Activities

- A159. The nature, and extent of planning activities will vary according to the terms of the assurance engagement, and take into account the following activities, as applicable: (Ref: Para. 157)

⁹⁷ See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (a) The terms of the assurance engagement.
- (b) A basic understanding of the nature of the financial information. Obtaining such an understanding provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the assurance engagement.
- (c) An understanding of the stated basis of preparation used in the process to compile the financial information;
- (d) The nature, characteristics, time period covered, and intended use of the financial information, and the applicable criteria used for its preparation.
- (e) The underlying event(s) or transactions(s) which require the preparation of the financial information.
- (f) The nature, timing, and extent of communications that will be required with the responsible party, and their third party experts, and advisors.
- (g) Fraud risk considerations.
- (h) Management resources that the entity is expecting to make available to assist with the process.

Materiality (Ref: Para. 158)

- A160. The assurance practitioner needs to consider materiality when planning and determining the nature, timing, and extent of assurance procedures, and when evaluating whether the financial information is free of misstatement. In determining materiality, the assurance practitioner needs to use professional judgement to understand and assess what factors might influence the decisions of intended users of the financial information in evaluating the prospects of the entity.
- A161. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature, and extent of the effect of these factors on the evaluation of the financial information, and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in the assurance engagement are matters of

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

professional judgement for the assurance practitioner.⁹⁸ Refer Appendix 3 for examples of quantitative and qualitative factors.

Assurance Engagement Risk (Ref: Para. 159)

- A162. In planning and performing the assurance engagement, appropriate consideration by the assurance practitioner of materiality and assurance engagement risk reduces the risk of expressing an inappropriate conclusion in the assurance report regarding the financial information to be included in the public document, or other document.
- A163. In general, assurance engagement risk comprises inherent risk, control risk and detection risk.⁹⁹ The assurance practitioner's consideration of these components is reflected in the assurance engagement evidence-gathering process and is affected by the assurance engagement circumstances, in particular the nature of the financial information included in the public document, or other document, and whether the conclusion being expressed in the assurance report is reasonable or limited assurance.

Assessing the Suitability of the Stated Basis of Preparation (Ref: Para. 160)

- A164. As detailed in ASAE 3000¹⁰⁰, the suitability of the stated basis of preparation used in the process to compile the financial information by the responsible party ordinarily has particular characteristics that the assurance practitioner is able to use in their evaluation. These characteristics include relevance, completeness, reliability, neutrality, and understand ability. When dealing with financial information prepared for use in a corporate transaction, the responsible party ordinarily develops specific criteria to meet their requirements.
- A165. There are certain matters that the assurance practitioner needs to consider when planning an assurance engagement to examine the process to compile financial information. These include:

⁹⁸ 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.

⁹⁹ 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.

¹⁰⁰ See ASAE 3000, paragraphs 35-39 (inclusive).

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (a) The nature of, and source of, the financial information used by the responsible party as well as the time period it covers.
- (b) The steps undertaken by the responsible party to:
 - (i) extract the financial information from the source;
 - (ii) identify any appropriate pro forma adjustments to make to reflect the impacts of the transaction(s) and/or event(s) to be adjusted for, through the process to compile the financial information.
- (c) The responsible party's competence in undertaking the process.
- (d) The responsible party's approach to identifying appropriate documents to support the process.

Procedures and Evidence

Evaluating the Sufficiency and Appropriateness of Evidence Obtained
(Ref: Para. 162)

A166. Evidence obtained by the assurance practitioner must be sufficient and appropriate in the circumstance of the engagement, and taking into account the level of assurance required:

- (a) Appropriateness of the evidence is the measure of the quality of assurance evidence; that is, its relevance and its reliability in providing support for the conclusions on which the assurance practitioner's opinion is based.
- (b) Sufficiency of the evidence is the measure of the quantity of assurance evidence. The quantity of the assurance evidence needed is affected by the assessment of the risks of material misstatement and also by the quality of such assurance evidence.

A167. An examination of the process to compile financial information in the form of pro forma historical does not permit the assurance practitioner to provide limited or reasonable assurance as to whether the pro forma historical financial information has been prepared, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Standards, and the accounting policies adopted by the respective entities.

Communications with the Responsible Party

A168. The assurance practitioner should communicate matters relating to the financial information, that in their professional judgement require the responsible party to make a material adjustment to the financial information. Such communication may be orally or in writing, and should be done as soon as possible to enable the responsible party to investigate the matter and advise the assurance practitioner of their decision to adjust or not adjust the financial information. (Ref: Para. 163)

A169. If the responsible party advises the assurance practitioner that they do not intend making the material adjustments identified to the financial information, the assurance practitioner should consider the implications for continuing the assurance engagement and for the assurance report, including modifying the assurance conclusion by using a qualified or adverse type of conclusion. (Ref: Para. 164)

Consideration of Events Up to the Date of the assurance report

(Ref: Para. 165-166)

A170. The extent of consideration by the assurance practitioner of events occurring after the date of performing assurance procedures and before the date of the assurance report (subsequent events) depends on:

- (a) the potential for the effects to impact the process to compile the financial information;
- (b) the agreed terms of engagement on the reporting of subsequent events; and
- (c) the requirements of applicable law, regulation, or professional standards.¹⁰¹

¹⁰¹ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Consideration of Events After the Date of the Assurance Report

(Ref: Para. 167)

A171. If there are material deficiencies, misleading statements, or significant matters omitted from the public document, or other document, which come to the assurance practitioner's attention after:

- (a) in the case of the public document – after it has been lodged with the appropriate regulatory body, and before the relevant date, the assurance practitioner shall consider 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 the other document – after it has been finalised and issued to its intended user(s), and before the relevant date, the assurance practitioner shall consider the implications for the assurance report, as well as any reporting obligations the assurance practitioner may have to inform the entity making the offer.

A172. If there are material deficiencies, misleading statements, or significant matters omitted from the public document, or other document: (Ref: Para. 168)

- (a) related to the process to compile the financial information on which the assurance practitioner has opined in the assurance report;
- (b) which have been omitted by the entity from the public document, or other document;
- (c) which come to the assurance practitioner's attention after the relevant date; and
- (d) the entity has not amended the public document, or other 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 public document, or other document, and consider any reporting obligations that the assurance practitioner may have.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

Written Representations (Ref: Para. 169-170)

During the Conduct of the Assurance Engagement

- A173. Written confirmation of oral representations reduces the possibility of misunderstandings between the assurance practitioner and the responsible party.¹⁰² Throughout the assurance engagement, the responsible party may make oral representations to the assurance practitioner, either unsolicited or in response to specific enquiries. When such representations relate to matters that are material to the evaluation of the preparation of the financial information in the public document, or other document, 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.¹⁰³
 - (d) Documents the key aspects of the oral representation.
- A174. 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 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.

¹⁰² 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.

¹⁰³ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

A175. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation of the financial information in the public document, or other 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.

Written Representation Letter at the Completion of the Engagement

A176. The assurance practitioner needs to request, and obtain, a written representation letter from the responsible party at the completion of the assurance engagement. The written representation letter should be dated by the responsible party providing the letter, and received by the assurance practitioner, as soon as practical prior to the completion of the assurance engagement.

A177. 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 consider 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 selection of the process for the compilation of the particular financial information for the periods stated, in accordance with the stated basis of preparation;
 - (ii) any adjustments made to the financial information have reasonable grounds;
 - (iii) all other information included in the public document, or other document, other than reports prepared by experts who have provided their consent for their inclusion;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (iv) their responsibility for the selection of financial information subject to the process to compile;
- (v) the overall public document, or other document;
- (c) all information requested by the assurance practitioner has been provided;
- (d) that any uncorrected misstatements are immaterial, either individually or in aggregate to the financial information; and that all such misstatements have been previously advised to the assurance practitioner;
- (e) has provided the assurance practitioner with all material financial information, financial records and related data, all other information relevant to financial information related to the engagement (for example fraud, errors, regulatory issues or communications);
- (f) that there are no material changes to the financial information between the date of the assurance report and the relevant date.

A178. Appendix 4 provides an illustrative written representation letter.

A179. 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. 173)

Concluding on the Engagement (Ref: Para. 174-175)

A180. The assurance practitioner's evaluation of the conclusions drawn from the evidence obtained during the assurance engagement takes account of:

- (a) whether the assurance practitioner has obtained sufficient appropriate evidence on which to form a conclusion;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (b) whether the assurance practitioner have obtained limited assurance , or reasonable assurance , as appropriate, that the process used to compile the financial information has been conducted in all material respects in accordance with the stated basis of preparation, as stated in the public document, or other document.

Types of Conclusions in the Assurance Report

- A181. When the assurance practitioner concludes, on the basis of having obtained sufficient appropriate evidence that the financial information has been properly prepared or compiled by the responsible party based on the applicable criteria [or in the case of pro forma financial information, the stated basis of preparation], the conclusion expressed in the assurance report is unmodified.
- A182. Appendix 5 contains illustrative examples of unmodified conclusions in an assurance report.

Modifications to the Conclusion in the Assurance Report (Ref: Para. 176(b))

- A183. 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, where practical to do so.
- A184. Although the issuance of a modified conclusion in the assurance report is likely to be rare, there may be instances when the assurance practitioner believes such a conclusion is appropriate.
- A185. Appendix 5 contains illustrative examples of modified conclusions¹⁰⁴ in an assurance report.

Reporting on the Engagement

Basic Elements of the Assurance Report (Ref: Para. 184)

- A186. The scope/background section of the assurance report may contain the following:

¹⁰⁴ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (a) Identification of the 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 financial information in the public document, or other document;
 - (c) Sources of the 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 public document, or other document.
- A187. In respect of an assurance report that is being included in a public document prepared under 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.¹⁰⁵
- A188. Where the compiled financial information involves pro forma historical financial information, this ordinarily results in the assurance practitioner providing limited assurance that the basis of the compilation of the pro forma historical financial information was in accordance with the stated basis of preparation. This applied stated basis of preparation, is typically disclosed in the public document, or other document. No assurance is expressed on the compiled pro forma financial information being prepared, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting

¹⁰⁵ See ASIC's RG 170.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Standards, and the accounting policies adopted by the respective entities.

Consent to the Inclusion of the Assurance Report in another Document

(Ref: Para. 185-186)

A189. The *Corporations Act 2001* requires the assurance practitioner to consent to the form and context in which the assurance report is included in a public document.¹⁰⁶ In view of this, the assurance practitioner reads the other information included in the public document to consider whether such information has material inconsistencies with the financial information that is the subject matter of the assurance report.

Documentation (Ref: Para. 187)

A190. Sufficient appropriate documentation¹⁰⁷ should include a record of the assurance practitioner's reasoning on all significant matters that require the exercise of judgement, together with the assurance practitioner's conclusions thereon. In areas involving difficult questions of principle or judgement, the documentation should include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.

A191. 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.

Reporting on Prospective Financial Information

Engagement Acceptance

Preconditions for Acceptance (Ref: Para.188)

¹⁰⁶ See Section 716 of the *Corporations Act 2001*.

¹⁰⁷ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- A192. The assurance practitioner, before accepting an engagement to examine prospective financial information, obtains an understanding from the responsible party as to the:
- (a) the nature of the assumptions used as the basis of preparation of the prospective financial information, that is, whether the assumptions include best-estimate and/or hypothetical assumptions;
 - (b) if the assumptions include hypothetical assumptions, confirmation that such assumptions are not material in terms of their effect on the prospective financial information;
 - (c) whether the assumptions used, prima facie, have a reasonable basis;
 - (d) the elements to be included in the information;
 - (e) the period covered by the information; and
 - (f) whether any prior period historical financial information used as the base financial information was subject to a modified audit or review opinion and if so, the nature of the modification.
- A193. In determining whether such assumptions are expected to have a reasonable basis, the assurance practitioner ordinarily considers matters such as:
- (a) the economic viability of the entity, the stability of its business and its financial strength;
 - (b) the economic viability and economic substance of the proposed corporate transaction that underlies the assumptions;
 - (c) 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
 - (d) the assurance practitioners past experience, if applicable, with the accuracy of the entity's preparations of prospective financial information as against actual results.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Agreeing on the Terms of the Assurance Engagement

- A194. To avoid misunderstandings, the agreed terms of the assurance engagement need to be recorded in an assurance engagement letter or other suitable form of contract. 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 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. 190)
- A195. Appendix 2 provides an illustrative sample engagement letter for an assurance engagement in connection with proposed corporate transactions. It can be adapted to the examination of prospective financial information. (Ref: Para. 190)
- A196. The assurance engagement letter between the responsible party and the assurance practitioner needs to include the agreed engagement terms as required in paragraph 192 of this ASAE. It also ordinarily includes:
- (a) A statement that the assurance practitioner is independent of the responsible party, and of the financial information that is the subject of the assurance engagement.
 - (b) The nature of any published consent given by the assurance practitioner in relation to the form and context of statements made in a public document, or other document. *The Corporations Act 2001*¹⁰⁸ for example, requires that when an entity wishes to distribute a public document in electronic and paper form, that the ASIC requires the assurance practitioner's consent to also be obtained in both forms.¹⁰⁹
 - (c) Important deadlines/timelines for the completion of the assurance engagement. This may include deadlines such as the expected date of publication of the public document, or other document.

¹⁰⁸ See Section 716 of the *Corporations Act 2001*.

¹⁰⁹ See ASIC Regulatory Guide 107 *Electronic Prospectuses*.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (d) Certain arrangements that are specific to the circumstances of the assurance engagement; for example, 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 (ordinarily as a member or observer of a due diligence committee);¹¹⁰
 - (ii) use the service of experts;
 - (iii) receive draft and final versions of the public document, or other document, in order to be satisfied with the form and context in which the assurance report has been included in the public document, or other document, or in which the assurance practitioner has been named in such a document; and
 - (iv) communicate directly with the entity's external auditor, if applicable, and/or other professional advisers regarding matters relevant to the financial information, to be reported on in the assurance report.

Changes in the Terms of the Assurance Engagement (Ref: Para. 193-195)

A197. Any change in agreed terms should be appropriately justified by the responsible party to the assurance practitioner's satisfaction before the assurance practitioner agrees to the change in the terms of engagement. A change in agreed terms that affects the intended users' needs, or a misunderstanding concerning the nature of the assurance engagement, would ordinarily justify a request for a change in the assurance engagement. If such a change is made, the assurance practitioner should not disregard evidence that was obtained prior to the change.

A198. Changes to the agreed terms that may be unacceptable to the assurance practitioner include:

¹¹⁰ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (a) limiting time available to perform the engagement; preventing access to all relevant documents or persons requested; or
- (b) not providing documents when requested, leading to time constraints.

Planning the Assurance Engagement

A199. Planning the assurance engagement ordinarily involves obtaining an understanding of the nature of the financial information, its preparation, and other assurance engagement circumstances to identify and understand events and transactions that may have a significant impact on the financial information, or on the assurance report. The assurance practitioner is required to use professional judgment to determine the extent of the understanding that is needed of the nature of the financial information and other assurance engagement circumstances.¹¹¹ The assurance practitioner ordinarily considers whether the understanding is sufficient to assess the risks that the financial information may be materially misstated.
(Ref: Para. 196)

A200. The nature, and extent of planning activities will vary according to the terms of the assurance engagement, and take into account the following activities, as applicable: (Ref: Para. 197)

- (a) The terms of the assurance engagement.
- (b) An understanding of the nature of the financial information. Obtaining an understanding of the nature of the financial information and its preparation provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the assurance engagement. However, in some engagement circumstances however, the assurance practitioner does not need to obtain a detailed understanding of the financial information. For example, takeovers or mergers, where the assurance practitioner has no access to the financial information of the target, or other entity to be merged, other than that available in the public domain.

¹¹¹ See ASA 200 *Objective and General Principles Governing an Audit of a Financial Report (Compiled)*.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (c) The nature, characteristics, time period covered, and intended use of the financial information, and the applicable criteria used for its preparation.
- (d) The underlying event(s) or transactions(s) which require the preparation of the financial information.
- (e) Whether the assurance practitioner has audited or reviewed the entity's financial report(s) in prior period(s).
- (f) The assurance practitioner's understanding of the entity, its business and operations, and its environment, including the risks that the financial information included in the public document, or other document, may be materially misstated.
- (g) The size and complexity of the entity including its ownership, management structure, and its financial resources.
- (h) The industry and economic environment within which it operates.
- (i) Applicable laws and regulations primarily affecting its operations.
- (j) Whether the entity is in a start-up phase, or has been in operation for a number of years and if so, its strategies for establishing and maintaining profitable operations.
- (k) The evidence-gathering process and possible sources of evidence.
- (l) Expertise requirements among the members of the assurance engagement team, and the nature and extent of experts or other specialised skills involvement, if any.¹¹² An expert may be internal (a partner or staff in the assurance practitioner's firm or network firm) or an external expert. The assurance practitioner's expert is different from the expert that may have been engaged by the entity to assist the responsible party in preparing the

¹¹² 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

financial information, or other specific information included in the public document, or other document.

- (m) The nature, timing, and extent of communications that will be required with the responsible party, and their third party experts, and advisors.
- (n) Fraud risk considerations.
- (o) Management resources that the entity is expecting to make available to assist with the process.

Previous experience with the entity

A201. Where the assurance practitioner has previously performed an audit or review of the entity's previous period's financial reports, 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, I.T systems (including financial systems). This understanding would need to be updated to ensure it has not changed in the current period.

A202. Where:

- (a) the assurance practitioner has not audited or reviewed the entity's prior period financial report(s); or
- (b) the entity is in a start-up phase;

the assurance practitioner ordinarily expands their planning activities in order to be satisfied that the assurance practitioner will be able to obtain sufficient knowledge and understanding in order to meet the requirements of this ASAE.

Understanding the Nature of the Financial Information

A203. Understanding the financial information may include:

- (a) understanding the significant accounting policies, used by the entity, particularly those related to recognition and measurement, and financial reporting practices, including the processes for selecting and approving the application of such policies and practices;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (b) understanding the accounting policies and key processes used in the preparation of the financial information in the public document or other document;
- (c) assessing the suitability of the accounting policies and principles used as applicable criteria for the preparation of the financial information in a public document or other document, as well as determining, for instance:
 - (i) the appropriateness of the pro forma adjustments;
 - (ii) the suitability of the assumptions used as the basis for the preparation of prospective financial information;
 - (iii) consider the source of the underlying data used in the preparation of the financial information in terms of its reliability, and whether the underlying data has been previously audited or reviewed;
- (d) other relevant financial information available in the public domain;
- (e) 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;
- (f) establishing and evaluating the continued appropriateness of quantitative materiality levels, and where appropriate, considering qualitative materiality factors;
- (g) developing expectations for use when performing analytical procedures;
- (h) designing and performing further assurance procedures to reduce assurance engagement risk to an appropriate level; and
- (i) evaluating evidence, including the reasonableness of the responsible party's oral and written representations.

Materiality (Ref: Para. 198)

A204. The assurance practitioner needs to consider materiality when planning and determining the nature, timing, and extent of assurance

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

procedures, and when evaluating whether the financial information is free of misstatement. In determining materiality, the assurance practitioner needs to use professional judgement to understand and assess what factors might influence the decisions of intended users of the financial information in evaluating the prospects of the entity.

- A205. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature, and extent of the effect of these factors on the evaluation of the financial information, and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in the assurance engagement are matters of professional judgement for the assurance practitioner.¹¹³ Refer Appendix 3 for examples of quantitative and qualitative factors.

Assurance Engagement Risk (Ref: Para. 199)

- A206. In planning and performing the assurance engagement, appropriate consideration by the assurance practitioner of materiality and assurance engagement risk reduces the risk of expressing an inappropriate conclusion in the assurance report regarding the financial information to be included in the public document, or other document.
- A207. In general, assurance engagement risk comprises inherent risk, control risk and detection risk.¹¹⁴ The assurance practitioner's consideration of these components is reflected in the assurance engagement evidence-gathering process and is affected by the assurance engagement circumstances, in particular the nature of the financial information included in the public document, or other document, and whether the conclusion being expressed in the assurance report is reasonable or limited assurance.

¹¹³ 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.

¹¹⁴ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Assessing the Suitability of Applicable Criteria (Ref: Para. 200)

A208. As detailed in ASAE 3000¹¹⁵, 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. These characteristics include relevance, completeness, reliability, neutrality, and understand ability. When dealing with financial information prepared for use in a corporate transaction, the responsible party ordinarily develops specific criteria to meet their requirements.

Reliance on the work of another Assurance Practitioner (Ref: Para. 201)

A209. Ordinarily, another assurance practitioner will not permit reliance to be placed on their auditor's report given the specific purpose for which the auditor's report was prepared and issued. 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.

A210. In situations where another assurance practitioner has performed an audit or review of the entity in respect of historical financial information that has been used as the base financial information, the assurance practitioner should consider the extent (if any) to which reliance can be placed on the work of the other assurance practitioner, taking into account:¹¹⁶

- (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.

¹¹⁵ See ASAE 3000, paragraphs 35-39 (inclusive).

¹¹⁶ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (f) Audit differences (if any) identified.
 - (g) Type of opinion expressed in the auditor's report, and if applicable, reasons for a modified opinion.
- A211. There are certain matters that the assurance practitioner needs to consider when planning an assurance engagement to examine prospective financial information. These include:
- (a) The nature of the documentation prepared by the entity supporting the assumptions used in the preparation of the prospective financial information.
 - (b) 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 prospective financial information.
 - (c) The extent to which statistical, mathematical and computer-assisted techniques are used by the entity in preparing the financial information.
 - (d) The methods used to develop and apply the assumptions.
- A212. The accuracy of prospective financial information prepared in prior periods and the reasons for material variances.
If the audit or review report on prior period historical financial information was modified, or if the entity is in a start-up phase, the assurance practitioner should consider the surrounding facts and the effect on prospective financial information.

Procedures and Evidence (Ref: Para. 204-207)

- A213. Evidence obtained by the assurance practitioner must be sufficient and appropriate in the circumstance of the engagement, and taking into account the level of assurance required:
- (a) Appropriateness of the evidence is the measure of the quality of assurance evidence; that is, its relevance and its reliability in providing support for the conclusions on which the assurance practitioner's opinion is based.
 - (b) Sufficiency of the evidence is the measure of the quantity of assurance evidence. The quantity of the assurance

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

evidence needed is affected by the assessment of the risks of material misstatement and also by the quality of such assurance evidence.

A214. Prospective financial information is, in nature, subjective and its preparation requires the exercise of considerable judgement by the responsible party. The assurance practitioner may have separate engagements in relation to the historical and prospective financial information. When the assurance practitioner is engaged to examine prospective financial information in the form of a forecast, the assurance practitioner also needs to consider the historical financial information to ensure that both prospective and historical information are developed on a consistent basis. Further, when the assurance practitioner is engaged to examine one or more elements of prospective financial information, such as an individual financial statement (for example a Balance Sheet, Statement of Cash flows, or Profit and Loss Statement), they need to consider its interrelationship with other components in the financial report.

A215. The assurance practitioner needs to consider the nature of the prospective financial information, as well as applicable law or regulation, which may require the assurance practitioner to perform certain procedures as part of their engagement. For example:

- (a) Prospective financial information included in a public document under the *Corporations Act 2001*^{117 118}, is required to be based on reasonable grounds¹¹⁹ 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.
- (b) Where the prospective financial information included in a public document comprises both a forecast and a projection. Given that a projection is ordinarily supported by material hypothetical assumptions, it is very unlikely to have “reasonable grounds” as the basis of preparation, and consequently should be excluded from prospective financial information. In addition, applicable law or regulation

¹¹⁷ See section 728(2) and section 769C of the *Corporations Act 2001*.

¹¹⁸ See ASIC’s RG 170 *Prospective Financial Information*, paragraphs 170.17 and 170.20.

¹¹⁹ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

ordinarily requires that such a projection should not to be included in the public document.¹²⁰

- (c) Where it is a forecast(s),¹²¹ Applicable law or regulation may provide a frame of reference for assessment. For example, an investor must be able to make an informed assessment of the reliability of the forecast, and therefore must be able to assess:
- (i) the validity of the assumptions on which the forecast is based;
 - (ii) the likelihood of the assumptions actually occurring; and
 - (iii) the effect on the forecast if the assumptions vary.

A216. The assurance practitioner needs to ensure that the prospective financial information is prepared based on the responsible party's stated assumptions and assess the source and reliability of the evidence supporting the responsible party's best-estimate assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity's capacity. Such an assessment may include the following procedures:

- (a) 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 (prospective financial information is properly prepared based on the responsible party's stated assumptions);
- (b) considering, when hypothetical assumptions are used, whether they have a material impact on the prospective financial information. Applicable law and regulation may not permit the inclusion of prospective financial information in a public document, or other document, that

¹²⁰ See ASIC's RG 170.

¹²¹ See ASIC's RG 170.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

is materially supported by hypothetical assumptions.¹²² Although evidence supporting immaterial hypothetical assumptions need not be obtained by the assurance practitioner, they should still be satisfied that the responsible party has some basis for their inclusion in the preparation of the prospective financial information;

- (c) considering the extent to which areas that are particularly sensitive to variation will have a material effect on the results shown in the prospective financial information. This will influence the extent to which the assurance practitioner obtains appropriate evidence. It will also influence the assurance practitioner's evaluation of the appropriateness and adequacy of the basis of preparation of the prospective financial information;
- (d) evaluating the time period covered by the prospective financial information. Assumptions become more speculative as the length of the period covered increases, and as that period lengthens, the ability of the responsible party to make best-estimate assumptions that have a reasonable basis decreases. The following are some of the factors that are relevant to the assurance practitioner's consideration:
 - (i) The operating cycle of the entity, for example, in the case of a major construction project, the time required to complete the project may dictate the period covered.
 - (ii) The degree of reliability of assumptions, for example, if the entity is introducing a new product, the prospective period covered could be short and broken into small segments, such as weeks or months. Alternatively, if the entity's sole business is to own a property under a long-term lease, a relatively long prospective period might be reasonable.
 - (iii) The needs of users, for example, the prospective financial information may be prepared for investors in connection with the sale of debentures

¹²² See Section 728 of the *Corporations Act 2001* and guidance contained in ASIC's RG 170 regarding what constitutes reasonable grounds that prevent misleading information.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

as a fundraising activity to illustrate the intended use of the proceeds in subsequent period(s).

- (iv) Where the assurance practitioner has prior experience with the entity, the degree of accuracy in the prospective financial information as compared to actual results achieved.
- (v) 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.¹²³
- (vi) When any elapsed portion of the current period is included in the prospective financial information, the extent to which procedures need to be applied to the historical information. Procedures will vary depending on the circumstances, for example, how much of the prospective period has elapsed.

A217. In addition to the specific requirements of any applicable law, regulation, or professional standards, the assurance practitioner also needs to consider whether:

- (a) the preparation of the prospective financial information is on a reasonable basis and is not misleading;
- (b) any disclosed recognition and measurement accounting policies applied in the preparation of the prospective financial information are consistent with the assurance practitioner's understanding. When examining the appropriateness of the accounting principles used the assurance practitioner considers whether those principles have been taken from accounting standards, which have been, or are proposed to be, superseded by the Australian Accounting Standards Board (AASB). In such cases, the assurance practitioner needs to consider the impact of such changes on the underlying recognition and measurement of the financial information;
- (c) the date as of which the prospective financial information was prepared is disclosed in the public document, or other

¹²³ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

document. The responsible party needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time;

- (d) the basis of establishing any points in a range is clearly explained and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range; and
- (e) any change in accounting policy since the most recent historical financial report is disclosed, along with the reason for the change, and its effect on the prospective financial information.

Using the Work of an Expert

A218. There are a number of 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. These circumstances may include:

- (a) Determining the suitability of applicable criteria used by the responsible party in preparing the prospective financial information.
- (b) Evaluating the reasonableness of best-estimate assumptions used in the preparation of prospective financial information.
- (c) Evaluating the asset valuations made by the responsible party in preparing pro forma adjustments relating to business combinations.
- (d) Interpreting the impact of the contract provisions in business combinations as they relate to the preparation of the prospective financial information.¹²⁴

¹²⁴ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Evaluating the Sufficiency and Appropriateness of Evidence Obtained
(Ref: Para. 208)

A219. Sufficiency is the measure of the quantity of the evidence obtained by the assurance practitioner. Appropriateness is the measure of the quality of the evidence; that is, its relevance and its reliability.¹²⁵ A determination as to the sufficiency and appropriateness of evidence is a matter of professional judgement.

Other Information

Material Inconsistencies (Ref: Para. 209-212):

A220. Material inconsistencies in other information that come to the assurance practitioners 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 a graph or table form).

A221. 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 revision, the assurance practitioner needs to consider whether to:

- (a) consider obtaining advice from the assurance practitioner's legal counsel;
- (b) include in the assurance report an Other Matter paragraph¹²⁶ that describes the material inconsistency; or
- (c) where applicable, withdraw consent to include the assurance report in the public document, or other document; or
- (d) withdraw from the assurance engagement, where the withdrawal is possible under applicable law or regulation.

¹²⁵ 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.

¹²⁶ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Material Misstatement of Fact (Ref: Para. 213-215)

- A222. 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.
- A223. When the assurance practitioner concludes that there is a material misstatement of fact that the responsible party refuses to correct, the assurance practitioner needs to consider whether to:
- (a) obtain advice from the assurance practitioner's legal counsel;
 - (b) include in the assurance report an Other Matter paragraph¹²⁷ that describes the material misstatement of fact; or
 - (c) withdraw consent to include the assurance report in the public document, or other document; or
 - (d) withdraw from the assurance engagement, where the withdrawal is possible under applicable law or regulation.

Communications with the Responsible Party

- A224. The assurance practitioner should communicate matters relating to the financial information, that in their professional judgement require the responsible party to make a material adjustment to the financial information. Such communication may be orally or in writing, and should be done as soon as possible to enable the responsible party to investigate the matter and advise the assurance practitioner of their decision to adjust or not adjust the financial information. (Ref: Para. 0)
- A225. If the responsible party advises the assurance practitioner that they do not intend making the material adjustments identified to the financial information, the assurance practitioner should consider the implications for continuing the assurance engagement and for the

¹²⁷ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

assurance report, including modifying the assurance conclusion by using a qualified or adverse type of conclusion. (Ref: Para. 217)

Going Concern Considerations (Ref: Para. 218-219)

- A226. The assurance practitioner considers the appropriateness of the going concern assumption of the entity when the nature of the assurance engagement means that it could have implications for the assurance report.
- A227. When considering whether the entity is a going concern¹²⁸, the assurance practitioner ordinarily takes into account the entity's forecasts, cash flow position, and the statement of financial position.
- A228. If the prospects for profitability are not supported by adequate cash flows, then both the forecast of the statement of financial performance and the ongoing viability of the entity are at risk. There may, however, be mitigating factors that may, 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) when the fundraising (for example, a capital raising) will result in the entity becoming a going concern.
- A229. Such 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 going concern assumption.

Consideration of Events Up to the Date of the Assurance Report

(Ref: Para. 220-221)

- A230. The extent of consideration by the assurance practitioner of events occurring after the date of performing assurance procedures and

¹²⁸ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

before the date of the assurance report (subsequent events) depends on:

- (a) the nature of the financial information. Consideration of subsequent events may not be relevant or appropriate where it is pro forma historical financial, because it is intended to illustrate the effect of an event or transaction on historical financial information at a certain point in time;
- (b) the potential for such events to materially affect the financial information in the public document, or other document;
- (c) the agreed terms of engagement on the reporting of subsequent events; and
- (d) the requirements of applicable law, regulation, or professional standards.¹²⁹

Consideration of Events After the Date the Assurance Report

(Ref: Para. 222-223)

- A231. If there are material deficiencies, misleading statements, or significant matters omitted from the public document, or other document, which come to the assurance practitioner's attention after:
- (a) in the case of the public document – after it has been lodged with the appropriate regulatory body, and before the relevant date, the assurance practitioner shall consider 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 the other document – after it has been finalised and issued to its intended user(s), and before the relevant date, the assurance practitioner shall consider the implications for the assurance report, as well as any reporting obligations the assurance practitioner may have to inform the entity making the offer.

¹²⁹ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

A232. If there are material deficiencies, misleading statements, or significant matters omitted from the public document, or other document:

- (a) related to the financial information on which the assurance practitioner has opined in the assurance report;
- (b) which have been omitted by the entity from the public document, or other document;
- (c) which come to the assurance practitioner's attention after the relevant date; and
- (d) the entity has not amended the public document, or other 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 public document, or other document, and consider any reporting obligations that the assurance practitioner may have.

Written Representations (Ref: Para. 224-228)

During the Conduct of the Assurance Engagement

A233. Written confirmation of oral representations reduces the possibility of misunderstandings between the assurance practitioner and the responsible party.¹³⁰ Throughout the assurance engagement, the responsible party may make oral representations to the assurance practitioner, either unsolicited or in response to specific enquiries. When such representations relate to matters that are material to the evaluation of the preparation of the financial information in the public document, or other document, the assurance practitioner ordinarily:

- (a) Evaluates their reasonableness and consistency with other evidence obtained, including other representations.

¹³⁰ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (b) Considers whether those making the representations can be expected to be well informed on the particular matters.
 - (c) Obtains appropriate corroborative evidence.¹³¹
 - (d) Documents the key aspects of the oral representation.
- A234. 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 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.
- A235. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation of the financial information in the public document, or other 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.

Written Representation Letter at the Completion of the Engagement

- A236. The assurance practitioner needs to request, and obtain, a written representation letter from the responsible party at the completion of the assurance engagement. The written representation letter should be dated by the responsible party providing the letter, and received by the assurance practitioner, as soon as practical prior to the completion of the assurance engagement.
- A237. 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

¹³¹ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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 consider 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 financial information for the periods stated, in accordance with the applicable criteria that was selected and determined by them;
 - (ii) selecting and applying any assumptions used in the preparation of the financial information, all of which have reasonable grounds;
 - (iii) all other information included in the public document, or other document, other than reports prepared by experts who have provided their consent for their inclusion;
 - (iv) the overall public document, or other 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) all information requested by the assurance practitioner has been provided;
- (d) that any uncorrected misstatements are immaterial, either individually or in aggregate to the financial information; and that all such misstatements have been previously advised to the assurance practitioner;
- (e) has provided the assurance practitioner with all material financial information, financial records and related data, all other information relevant to financial information related

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

to the engagement (for example fraud, errors, regulatory issues or communications);

- (f) the going concern basis of preparation of the financial information in the public document, or other document, is appropriate; and
- (g) that there are no material changes to the financial information between the date of the assurance report and the relevant date.

A238. Appendix 4 provides an illustrative written representation letter.

A239. 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. 228)

Concluding on the Engagement (Ref: Para. 229-230)

A240. The assurance practitioner's evaluation of the conclusions drawn from the evidence obtained during the assurance engagement takes account of:

- (a) whether the assurance practitioner has obtained sufficient appropriate evidence on which to form a conclusion;
- (b) whether the assurance practitioner have obtained limited assurance that the financial information is prepared in all material respects in accordance with the applied criteria as stated in the public document, or other document, including:
 - (i) whether the entity has complied with the recognition and measurements principles in the Australian Accounting Standards; and
 - (ii) whether the entity has been consistent with, and complied with, the accounting policies/principles adopted and disclosed.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- A241. Where the prospective financial information is prepared on the basis of a combination of best-estimate and hypothetical assumptions (which do not have a material impact on the prospective financial information), the assurance practitioner does not express a conclusion on hypothetical assumptions because, by their nature, sufficient appropriate evidence is not available to the assurance practitioner to support those hypothetical assumptions.
- A242. The assurance practitioner is required to assess whether the assurance practitioner has obtained sufficient appropriate evidence on which to form a limited assurance conclusion on the reasonableness of the responsible party's assumptions. 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. The assurance practitioner is therefore not in a position to conclude, and express a conclusion as to whether the results shown in the prospective financial information will be achieved. If the prospective financial information is expressed as a range, the assurance practitioner cannot conclude, or provide any assurance that actual results will fall within the range.
- A243. Given the nature of the evidence available in assessing the reasonableness of the assumptions on which the prospective financial information is based, it may be difficult for the assurance practitioner to obtain a level of satisfaction sufficient to express a conclusion of reasonable assurance that the assumptions are free of material misstatement. Consequently, when reporting on the reasonableness of the responsible party's assumptions, the assurance practitioner ordinarily provides only a limited level of assurance by issuing a statement of negative assurance on best-estimate assumptions.

Types of Conclusions in the Assurance Report

- A244. When the assurance practitioner concludes, on the basis of having obtained sufficient appropriate evidence that the financial information has been properly prepared or compiled by the responsible party based on the applicable criteria [or in the case of pro forma financial information, the stated basis of preparation], the conclusion expressed in the assurance report is unmodified.
- A245. Appendix 5 contains illustrative examples of unmodified conclusions in an assurance report.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Modifications to the Conclusion in the Assurance Report (Ref: Para. 231(b))

- A246. 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, where practical to do so.
- A247. Although the issuance of a modified conclusion in the assurance report is likely to be rare, there may be instances when the assurance practitioner believes such a conclusion is appropriate.
- A248. Appendix 5 contains illustrative examples of modified conclusions¹³² in an assurance report.

Reporting on the Engagement

- A249. Applicable law or regulation may prescribe the content of the assurance report in respect of prospective financial information, and the assurance practitioner therefore needs to comply with these requirements as part of the assurance practitioner's reporting.¹³³
- A250. The date of the assurance report on prospective financial information should be the date that the assurance practitioner completed the assurance procedures on the prospective financial information.

Basic Elements of the Assurance Report (Ref: Para. 239)

- A251. The scope/background section of the assurance report may contain the following:
- (a) Identification of the 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 financial information in the public document, or other document;

¹³² 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.

¹³³ See ASIC's RG 170 *Prospective Financial Information*, paragraphs 170.18 contains some authoritative guidance on the type of wording to be included in the Investigating Accountants Report relating to a public document.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (c) Sources of the 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 public document, or other document.
- A252. If the assurance practitioner is preparing a composite assurance report the assurance practitioner needs to ensure:
- (a) that the different types of financial information are clearly identified in the public document, or other 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.
- A253. In respect of an assurance report that is being included in a public document prepared under 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.¹³⁴

Consent to the Inclusion of the Assurance Report in another Document

(Ref: Para. 240-241)

- A254. The *Corporations Act 2001* requires the assurance practitioner to consent to the form and context in which the assurance report is

¹³⁴ See ASIC's RG 170.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

included in a public document.¹³⁵ In view of this, the assurance practitioner reads the other information included in the public document to consider whether such information has material inconsistencies with the financial information that is the subject matter of the assurance report.

Documentation (Ref: Para. 242)

- A255. Sufficient appropriate documentation¹³⁶ should include a record of the assurance practitioner's reasoning on all significant matters that require the exercise of judgement, together with the assurance practitioner's conclusions thereon. In areas involving difficult questions of principle or judgement, the documentation should include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.
- A256. 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.

¹³⁵ See Section 716 of the *Corporations Act 2001*.

¹³⁶ 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.

Proposed Standard on Assurance Engagements ASAE 34XX
*Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes*

**Conformity with International Standards on Assurance
Engagements**

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

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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

Appendix 1

TYPES OF FINANCIAL INFORMATION

Types of Financial Information							
	Historical Financial Information	Pro Forma Historical Financial Information		Pro Forma Forecast Financial Information		Prospective Financial Information ⁽¹⁾	
Type of Conclusion			Aggregated	Best-estimate forecast	Aggregated	Best-estimate forecast	Combination of best-estimate & immaterial hypothetical assumptions
Limited assurance	✓	✓	✓	✓	✓	✓	✓ ⁽²⁾
Reasonable assurance	✓	x	✓	x	✓	x	x

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.

Proposed Standard on Assurance Engagements ASAE 34XX
*Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes*

APPENDIX 2

(Ref: Para 8)

INSERT DIAGRAM SHOWING RELATIONSHIP WITH OTHER AUASB
STANDARDS

Draft

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

APPENDIX 2

(Ref: Para.19)

Illustration of an Engagement letter

Illustration: Engagement Letter covering an assurance engagement to issue an Investigating Accountant's Report on a Bidder Statement/Target or Scheme of Arrangement transaction undertaken under the *Corporations Act 2001*.

The following illustrative letter includes example terms of engagement that can be tailored for specific engagement circumstances.

Engagement Circumstances include the following:

- **Engagement in connection with ABC Company's takeover of XYZ Target company. ABC Company does not have access to the Target company's financial information for the purposes of the proposed corporate transaction.**
- **Assurance Engagement terms are to express a limited assurance conclusion on historical financial information, pro forma historical financial information, pro forma forecast financial information, and financial information that has been compiled.**

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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

statements of cash flows for the years ended 30 June 20XX and 20X1 (the “Historical Financial Information”);

- perform procedures, described below, to enable us to report on the compilation 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 compilation 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 *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*.

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;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- 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 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 Compilation of Pro Forma Historical Financial Information*

We will review the compilation 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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

financial information of XYZ Target from its audited financial statements for the years ended 30 June 20XX and 20X1;

- 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 reasonable grounds for the preparation of the ABC Company Forecast;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- the ABC Company Forecast is not properly prepared on the basis of the directors' best-estimate assumptions or prepared in accordance 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 compilation of the Aggregated 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:

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- the ABC Company Forecast;
- [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 compilation 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 compilation 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.¹³⁷

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;

¹³⁷ If sufficient access is granted to the XYZ Target's forecast and assumptions underlying the forecast, the wording can be amended.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- 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.]

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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

Materiality Considerations

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

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:

- (c) 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).
- (d) 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).
- (e) The nature of the entity, where the entity is in its life cycle, and the industry and economic environment in which the entity operates.
- (f) 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).
- (g) The relative volatility of the benchmark.
- (h) A certain percentage is ordinarily then applied to the selected benchmark as a starting point for determining materiality thresholds.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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:

- (a) 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).
- (b) 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).
- (c) 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).
- (d) Whether there are, or have recently been, material related party or director related transactions with the entity.

APPENDIX 4

(Ref: Para. 66)

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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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 *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*. 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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;

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- 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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

directors' forecast, other than those already reflected in the prospectus;

- 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; and
- 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. 83)

Illustrations of assurance reports Relating to Proposed Corporate Transactions and Prospective Financial Information

The following illustrations incorporate the requirements of this Standard on Assurance engagement. 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 due to a 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 (including hypothetical assumptions), with an unmodified limited assurance conclusion

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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]¹³⁸

The Directors

ABC Company Limited

[Address]

Dear Directors¹³⁹

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 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.

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:

¹³⁸ 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*.

¹³⁹ Or other title as appropriate in the circumstances of the engagement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (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 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 the adjustments to the historical financial information].¹⁴⁰

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 review of the historical financial information in accordance with the Standard on Assurance engagement ASAE 34XX

¹⁴⁰ 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]*”.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes. 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 pro forma adjustments and pro forma transactions 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

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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 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 *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*. 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 pro forma 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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

Conclusion

Review Statement on Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention, which causes us to believe that the 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 prospectus¹⁴¹.

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

¹⁴¹ Identify departures from the reporting requirements of the Australian Accounting Standards, if appropriate.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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]¹⁴² other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

Draft

¹⁴² Identify the nature of the transaction, for example, issue of shares or scheme of arrangement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Illustration 2: Investigating Accountant's Report on historical financial information with an unmodified reasonable assurance conclusion included in a prospectus

[Date]¹⁴³

The Directors

ABC Company Limited

[Address]

Dear Directors¹⁴⁴

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:

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

¹⁴³ 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*.

¹⁴⁴ Or other title as appropriate in the circumstances of the engagement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (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].¹⁴⁵

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 *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*. 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.

Conclusion

Conclusion on Historical Financial Information

¹⁴⁵ 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]*”.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

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 prospectus¹⁴⁶.

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]¹⁴⁷ other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

¹⁴⁶ Identify departures from the reporting requirements of the Australian Accounting Standards, if appropriate.

¹⁴⁷ Identify the nature of the transaction, for example, issue of shares or scheme of arrangement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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 Directors¹⁴⁸

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]¹⁴⁹ 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]:

¹⁴⁸ Or other title as appropriate in the circumstances of the engagement.

¹⁴⁹ Specify the type of the public document.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- (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].¹⁵⁰

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 *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*. We reviewed the historical financial

¹⁵⁰ 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]*”.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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 [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 pro forma 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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 *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*. 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 pro forma 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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.

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]¹⁵¹.

¹⁵¹ Identify departures from the reporting requirements of the Australian Accounting Standards, if appropriate.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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]¹⁵² other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

¹⁵² Identify the nature of the transaction, for example, issue of shares or scheme of arrangement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Illustration 4: Investigating Accountant's Report on pro forma forecast financial information with an unmodified limited assurance conclusion

[Date]¹⁵³

The Directors

ABC Company Limited

[Address]

Dear Directors¹⁵⁴

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]¹⁵⁵ 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].

¹⁵³ 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*.

¹⁵⁴ Or other title as appropriate in the circumstances of the engagement.

¹⁵⁵ Specify the type of the public document.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

[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 pro form 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 Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*. 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.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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:

- (a) The Directors' best-estimate assumptions do not provide a reasonable basis 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 pro forma 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 a 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 best-estimate assumptions as set out in Section [X] of the public document, and the pro forma transactions and associated pro forma 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.

Independence or Disclosure of Interest

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

[Firm Name] does not have any interest in the outcome of this [transaction]¹⁵⁶ other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

Draft

¹⁵⁶ Identify the nature of the transaction, for example, issue of shares or scheme of arrangement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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]¹⁵⁷

The Directors

ABC Company Limited

[Address]

Part 1- Investigating Accountant’s Report on Forecast Financial Information

Dear Directors¹⁵⁸

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 document¹⁵⁹] 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 proposed corporate transaction.]

Scope

¹⁵⁷ 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*.

¹⁵⁸ Or other title as appropriate in the circumstances of the engagement.

¹⁵⁹ Specify the type of the public document.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

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]¹⁶⁰. 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.¹⁶¹

We have conducted our review of the Financial Forecast in accordance with the Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*. 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 a reasonable basis for the preparation of the forecast; and
- the Financial Forecast is not:
 - (a) properly prepared on the basis of the best-estimate assumptions as set out in Section [X], and

¹⁶⁰ 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].”

¹⁶¹ 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.”

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective
Financial Information, as well as the examination of Prospective Financial
Information for Other Purposes

- (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.¹⁶² 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 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' best-estimate 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]);¹⁶³
- 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.

Independence or Disclosure of Interest

¹⁶² where appropriate.

¹⁶³ where appropriate.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

[Firm Name] does not have any interest in the outcome of this [transaction]¹⁶⁴ other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

Part 2 – Financial Services Guide

Draft

¹⁶⁴ Indicate the nature of the transaction; for example, issue of shares or a scheme of arrangement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Illustration 6: Investigating Accountant's Report on the compilation of Pro Forma Financial Information with an unmodified limited assurance conclusion

[Date]¹⁶⁵

The Directors

[Name of Entity]

[Address]

Investigating Accountant's Report on the Compilation of Pro Forma Financial Information

Dear Directors¹⁶⁶

As agreed in our engagement letter dated XXXX, we have completed our assurance engagement to report on the compilation by ABC Company (the company) of pro forma financial information, consisting 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 basis of preparation used is 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 compilation, 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 auditor's]/[a reviewer's] 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].

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.

¹⁶⁵ 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*.

¹⁶⁶ Or other title as appropriate in the circumstances of the engagement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Directors' Responsibilities for the Pro Forma Financial Information

The Directors of ABC Company are responsible for developing and applying the process for the compilation of the pro forma financial information in accordance with the stated basis of preparation set out in Section [X] of the [public document].

Our Responsibilities

Our responsibility is to express a conclusion about whether the compiled pro forma financial information has been prepared by management

in accordance with the stated basis of preparation. We are not responsible for updating any previously issued auditor's 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.

We conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 34XX *Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*.

Our procedures included:

- Making enquiries of the Directors regarding how the Directors have compiled the pro forma financial information;
- Checking whether the Directors have appropriately extracted the unadjusted financial information from the source documents;
- Evaluating whether the Directors have compiled the pro forma financial information on a basis consistent with the company's financial reporting framework and its accounting policies under that framework;
- Considering the Director's evidence supporting the pro forma adjustments;
- Determining whether the calculations within the pro forma financial information are arithmetically accurate; and
- Considering whether the compilation of the financial information has been undertaken in accordance with the stated basis of preparation.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

- We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

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 with the stated basis of preparation.

Independence or Disclosure of Interest

[Firm Name] does not have any interest in the outcome of this [transaction]¹⁶⁷ other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

¹⁶⁷ Identify the nature of the transaction, for example, issue of shares or scheme of arrangement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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 Directors¹⁶⁸

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.

¹⁶⁸ Or other title as appropriate in the circumstances of the engagement.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

The Financial Forecast has been prepared by management for [the purpose of].¹⁶⁹ 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.¹⁷⁰ 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 Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes*. 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 a 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.

¹⁶⁹ 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].*"

¹⁷⁰ 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.*"

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

Given the nature of the evidence available in assessing the reasonableness of 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.¹⁷¹ 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 a 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 best-estimate 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]).¹⁷²

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

¹⁷¹ where appropriate.

¹⁷² where appropriate.

Proposed Standard on Assurance Engagements ASAE 34XX
Fundraisings involving Proposed Corporate Transactions and Prospective Financial Information, as well as the examination of Prospective Financial Information for Other Purposes

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]¹⁷³ other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Partner]

[Firm Name]

Date

Part 2 – Financial Services Guide

¹⁷³ Indicate the nature of the transaction; for example, issue of shares or a scheme of arrangement.

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