

The Chairman
Auditing and Assurance Standards Board
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Via email: edcomments@auasb.gov.au (Copy to: sfraser@auasb.gov.au)

Dear Ms Kelsall

Response to: Exposure Draft (ED 02/11) – Proposed Standard on Assurance Engagements ASAE 3450

We have previously discussed making a late submission with Ms Susan Fraser and appreciate the opportunity to comment on exposure draft ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information (ED 02/11)*. While we are supportive of the further guidance given to practitioners involved in fundraisings in Australia, there are a number of areas where we have some concerns with ED 02/11 and would like to bring them to your attention.

Set out below are our key comments on ED 02/11. These are followed by our general comments, which are divided into two parts:

- Part 1 contains our responses to the specific questions you have asked interested stakeholders to respond to; and
- Part 2 contains some general drafting comments on the Exposure Draft.

Given the extensive comments that have been submitted to date regarding ED 02/11 and the fairly significant changes that some practitioners are advocating to narrow the language of the assurance opinions that can be expressed in fundraisings in Australia, to the extent that the AUASB is contemplating making any of those significant changes, we would welcome having an opportunity to discuss our comments with you in person and to review a subsequent revised exposure draft before it is finalised. We believe that any further narrowing of the language of assurance has the potential to undermine the integrity and efficient functioning of capital markets in Australia.

Key Comments

Our key comments on ED 02/11 are:

1 Assurance conclusions

- There are some inconsistencies between the description of the assurance conclusions in the draft IARs included in the appendices and the rest of the document, particularly the description of the practitioner's scope of work and responsibilities.

- "*prepared in accordance with*" or "*presented fairly in accordance with*" – we understand that some practitioners have questioned the AUASB's use of these terms in the assurance conclusions stated in the draft IARs included in the appendices. We believe the language used in the template IARs correctly describes market practice in Australia and should be retained in its current form;
- "*in all material respects*" – we understand that some practitioners have questioned the limited use of this qualifier in the assurance conclusions expressed in the IARs that deal with prospective financial information and pro forma forecast financial information. In particular, we understand that a comment has been made that this qualifier should apply to all three limbs of the assurance conclusion expressed, not just the second limb. We strongly disagree with this comment on the basis that:
 - It is inconsistent with the assurance opinion a practitioner is required to express under AGS 1062, ASIC policy guidance on including prospective financial information in offer documents (see RG 170.36) and market practice; and
 - It would, if accepted, result in a limited assurance opinion that would be difficult to understand and be of potentially questionable value. It would immediately place into doubt whether parts of a financial forecast complied with the Corporations Act and therefore whether the forecasts ought to be included in the offer document in the first place. For example, by including the qualifier in relation to the third limb of the assurance opinion on forecasts, it would imply that there could be non-material aspects of the financial forecasts that were unreasonable, which would mean that the inclusion in a prospectus of those parts of the forecast (whatever they might be) technically breached the Corporations Act.
- "*the forecast itself is unreasonable*" – we understand that some practitioners have suggested removing this third limb from the assurance opinion given on forecasts. We strongly disagree with this suggestion on the basis that:
 - It is inconsistent with the assurance opinion a practitioner is required to express under AGS 1062, ASIC policy guidance (see RG 170.36) and market practice; and
 - It would, if accepted, undermine a fundamental cornerstone of the assurance given by accountants, as independent experts. We believe deleting this limb would have significant implications for Australian capital markets and would place into question the very role an accountant plays as an independent expert in the Australian market reviewing, and providing limited assurance on, forecasts included in an offer document.
- "*best estimate assumptions*" – we understand that some practitioners have questioned whether or not there is a sufficient framework against which to assess whether best estimate assumptions are reasonable or not. Paragraph 58(b) of AGS 1062 gives guidance on how practitioners ought to approach this when exercising their professional judgement, by having regard to RG 170 as well as the matters set out in footnote 58 to this paragraph. We strongly disagree that this limb of the assurance conclusion should be deleted as it underpins the very basis on which the entire financial forecasts rest. Further, we also strongly disagree that the inclusion of this limb makes the final limb of the opinion redundant (ie negative assurance that the forecasts themselves are unreasonable). This is for the simple reason that forecasts deal with more than the assumptions.

2 Subsequent events

We understand that some practitioners have questioned the inclusion of a "Subsequent Events" paragraph in an IAR.

As there is often a gap between the date of the relevant financial statements included in an offer document and the date of the IAR (or date of the offer document), a subsequent events paragraph should be retained given its substantive importance.

We understand that some practitioners have suggested removing the reference to the phrase "*...or that would cause such [financial information] to be misleading or deceptive*". We refer to the AUASB's guidance in paragraphs 55 and 56 of AGS 1062 and agree that in light of the requirements of section 716 and 730 of the Corporations Act, these words must be retained.

With respect, we do not agree with the practitioner's view that there is no framework to enable a practitioner to assess whether or not a matter is misleading or deceptive. A core part of that framework is the Corporations Act and ASIC policy and, consistent with the views of the AUASB expressed in AGS 1062 and ED 02/11, we believe that when practitioners exercise their professional judgement and give limited assurance in fundraisings, they must have regard to applicable law and regulation.

If the practitioner questions whether or not there is an appropriate framework against which to assess misleading or deceptive financial information then that brings into question what framework practitioners are currently applying, or having regard to, when they give negative assurance under APES 350 that specific financial information included in an offer document, which a practitioner has reviewed, is not misleading or deceptive (including by omission) in the form and context in which that information appears. The form and context is an offer document prepared under the Corporations Act. The practitioner, in exercising their professional judgement about whether or not there is a misleading or deceptive statement, must be having regard to the applicable laws and ASIC policy that govern the content requirements of offer documents.

Part 1 – General Comments

1.	Have applicable laws and regulations been appropriately addressed in the proposed Standard?
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The proposed Standard contains some general references to the Corporations Act and ASIC RG 170 and there is an acknowledgement that accounting practitioners, as part of their planning processes, need to have an understanding of the applicable legal and regulatory framework against which they perform their agreed scope of work, exercise their professional judgement and express written assurance opinions.

When compared against AGS 1062 we believe it would be more appropriate for ASAE 3450 to contain a similar level of detailed guidance to ensure that there is clarity from the AUASB about those applicable legal and ASIC policy matters that accounting practitioners must take into account when expressing assurance opinions in a fundraising context. For example, AGS 1062 contains many detailed paragraphs and footnotes that reference and explain relevant sections of the Corporations Act and RG 170 and we believe these would be appropriate to

include in ASAE 3450. RG 170 specifically refers to AGS 1062 and the guidance contained in that standard (see RG 170.38).

ASIC recently released RG 228 on effective prospectus disclosure for retail investors and we believe it would be appropriate to include appropriate references to this new regulatory guidance (particularly in relation to the parts that deal with financial information).

If it is contemplated that AGS 1062 is to be replaced by ASAE 3450, then we strongly recommend that the detailed guidance given by the AUASB in relation to relevant sections of the Corporations Act and RG 170 should be transferred across to ASAE 3450. If this is not done, then the benefit practitioners and other market participants have had of the clear detailed guidance from the AUASB in AGS 1062 will be lost. One consequence of this is that over time, this may lead to a weakening of the overall quality of assurance opinions given in the Australian market. If AGS 1062 is to be retained, then we recommend including an appropriate statement in ASAE 3450 that clarifies how these two statements sit together.

Following on from CP 150, on 9 December 2011 ASIC released RG 230 on using and disclosing non-IFRS information. ASAE 3450 will need to be reviewed and amended as appropriate to take into account, and specifically refer to, this guidance from ASIC.

It would be helpful if the AUASB could include some clear guidance in ASAE 3450 that specifically acknowledges that nothing in the Standard prohibits a practitioner from giving:

- a sign-off in accordance with APES 350; and
- a comfort letter in accordance with ICMA or SAS 72

2. Are there any references to relevant laws or regulations that have been omitted?

As noted above:

- Detailed explanatory references to the Corporations Act and RG 170 along the lines of the guidance given in AGS 1062
- RG 228
- RG 230

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?

Across ASAE 3450, RG 170 and APES 350 there is an inconsistent approach to the naming of the assurance reports given by an accounting practitioner:

- ASRE 3450 – calls the report an Independent Assurance Report

- RG 170 – calls the report an Independent Accountant's Report
- APES 350 – calls the report an Investigating Accountant's Report

4. What, if any, are the additional significant costs to / benefits for auditors and the business community arising from compliance with requirements of this proposed Standard on Assurance Engagements? If there are significant costs, do these outweigh the benefits to the users of assurance services?

As discussed above, we believe there will be a potentially significant cost to the business community if:

- the language of assurance is narrowed along the lines being advocated by some practitioners; and
- the overall quality of work underpinning assurance opinions is weakened over time. We believe there is a risk of this occurring in the Australian if the AUASB's detailed guidance in AGS 1062 on the applicable legal and ASIC regulatory policy framework is not carried across to ASRE 3450. The Independent Assurance Reports given by accountants in a fundraising context play a significant role in Australian capital markets and we believe it is in the best interests of the business community, practitioners and all stakeholders involved in capital markets that a high quality of work and professional judgement continues to underpin the delivery of those assurance reports. To that end, we believe that compliance with this Standard, backed by detailed guidance on the applicable legal and regulatory framework, is a key way to facilitate achieving that objective.

5. Are there any other significant public interest matters that constituents wish to raise?

As described above.

6. Should this proposed Standard be split according to the type of financial information?

No. We believe it would be useful for all stakeholders to be able to locate all required guidance under "one roof" as it were, instead of having to work through multiple statements of guidance.

7. Should the section covering assurance on the compilation of pro forma financial information be included in a separate Standard? The AUASB notes that the IAASB will be issuing ISAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* in late 2011 and this proposed ASAE 3450 has incorporated, where appropriate, requirements and related guidance from the ISAE 3420 Exposure Draft. The AUASB will consider making further consequential changes to the proposed ASAE 3450 when ISAE 3420 is issued.

We note that it is standard market practice in Australia to provide limited assurance that pro forma financial information included in a public document is prepared in accordance with the recognition and measurement principles contained in Australian Accounting Standards applied to:

- an issuer's underlying financial information; and
- the agreed pro forma adjustments, as if those events to which the adjustments relate had occurred at a specified date (or during a specified period).

We therefore think it would be useful to retain the AUASB's guidance on the compilation of pro forma financial information under "one roof" with the other guidance given in relation to giving assurance on pro forma financial information itself in a fundraising context. We understand that in September 2011 the IAASB approved ISAE 3420 on the compilation of pro forma financial information included in a prospectus and that the standard does not include limited assurance on the relevant pro forma financial information itself. Given the prevalence of use of pro forma financial information in Australian capital markets, we strongly recommend that the AUASB continue to include in ASAE 3450 its guidance on pro forma financial information itself as well as guidance on the compilation of pro forma financial information.

8. Should the section covering assurance on historical financial information be included in the proposed Standard?

We support including guidance on engagements relating to historical financial information in the proposed Standard.

9. Should the section covering assurance on prospective financial information be included in the proposed Standard?

We support including guidance on engagements relating to prospective financial information in the proposed Standard.

10. Are there any public sector issues which should be addressed in this proposed Standard?

None that we're aware of.

11. Are there any SME issues which should be addressed in this proposed Standard?

None that we're aware of.

Part 2 General comments - drafting

	Ref	Comment
1.	13(w)(iii)	In low doc offerings, documents are not generally lodged with ASIC, they are lodged with ASX.
2.	13(bb)	In accordance with our earlier comment on "Subsequent Events" we believe the guidance from AGS 1062 on this topic ought to be included here (assuming AGS 1062 will not be continuing once ED 02/11 is finalised).
3.	Appendix 4 – Illustration 1	<ul style="list-style-type: none"> • Scope: <ul style="list-style-type: none"> ○ reference should also be made to Statements of Cash Flows ○ the basis of preparation for the historicals and pro formas should refer not just to the Australian Accounting Standards but also to the issuer's adopted accounting policies • Our Responsibility – Historical and Pro Forma financial info <ul style="list-style-type: none"> ○ It is standard market practice to describe the review procedures in more detail than simply "<i>making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures</i>". In line with AGS 1062, this also includes: <ul style="list-style-type: none"> ▪ A review of [ABC Company's] work papers, accounting records and other documents; ▪ A consistency check in the application of the recognition and measurement principles in Australian Accounting Standards to the accounting policies adopted by the [Company] and disclosed in section [X] of the [Offer Document] • Conclusion <ul style="list-style-type: none"> ○ Statement of Cash Flows should be included ○ The reference to the financial reporting framework described in the scope of the report is potentially confusing and we think current market practice should be retained (where parties refer to the framework in this section of the report so as to ensure clarity of meaning).
4.	Appendix 4 – Illustration 2	<ul style="list-style-type: none"> • Scope <ul style="list-style-type: none"> ○ Same comment as above regarding basis of preparation and issuer's adopted accounting policies. • Our responsibility – Financial Forecast

		<ul style="list-style-type: none">○ Para 1 should also refer to the two other limbs on which limited assurance is being given:<ul style="list-style-type: none">▪ The best estimate assumptions▪ The forecasts themselves not being unreasonable
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