

ASAE 3450
(August 2012)

Standard on Assurance Engagements
ASAE 3450
Assurance Engagements involving
Corporate Fundraisings and/or Prospective
Financial Information
(Re-issuance of AUS 804 and AGS 1062)

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

Draft

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Auditing and Assurance Standards Board

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PREFACE

Reasons for Issuing ASAE 3450

The AUASB issues Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, pursuant to the requirements of the legislative provisions explained below.

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

Draft

Main Features

This Standard on Assurance Engagements establishes requirements and provides application and other explanatory material regarding the reporting on financial information included in, or to be included in, a public or non-public document and the reporting on prospective financial information prepared for other purposes.

Draft

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Assurance Engagements is to be read in conjunction with ASA1 00 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied.

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STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3450

Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information

Application

1. This Standard on Assurance Engagements applies to reporting on:
 - (a) historical financial information, pro forma historical financial information, prospective financial information and/or pro forma forecast in connection with a corporate fundraising, and included in, or to be included in, a public or non-public document; and
 - (b) prospective financial information, including a pro forma forecast for any other purpose.

Operative Date

2. This Standard on Assurance Engagements is operative for engagements commencing on or after 1 March 2013.

Introduction

Scope of this Standard on Assurance Engagements

3. This ASAE deals with the responsibilities of the assurance practitioner when undertaking an engagement to report on the responsible party's preparation of financial information related to a corporate fundraising, or prospective financial information prepared for other purposes. It applies to an assurance engagement to provide either a reasonable assurance or limited assurance report on that financial information.
4. In some circumstances, the assurance practitioner may also have separately agreed to provide other assurance or non-assurance services related to the corporate fundraising. Such responsibilities are outside the scope of this ASAE. (Ref: Para A1-A2)

Types of Financial Information Covered

5. The types of financial information covered by this ASAE are historical financial information, pro forma historical information, prospective financial information (excluding if it includes a projection or material hypothetical assumptions) and a pro forma forecast, when it related to a corporate fundraising, or in the case of prospective financial information, if it is prepared for other purposes. The financial information may be in respect of one entity or multiple entities (for example, in the case of a merger or acquisition).
6. It is acknowledged that assurance engagements covered by this ASAE often involve the assurance practitioner providing assurance, and reporting, on more than one type of financial information. In such circumstances, the assurance practitioner conducts the engagement in accordance with the applicable requirements and related application and other explanatory material in the appropriate section of the ASAE, and reports the assurance conclusion for each type of financial information either in individual assurance reports (by type), or a composite assurance report (all types). Appendix 3 contains illustrative examples of composite assurance reports.

Using this ASAE

7. Paragraphs 15 to 95 inclusive of this ASAE sets out core requirements, and paragraphs A4 to A73 inclusive, sets out the core related application and other explanatory material applicable to assurance engagements relating to a corporate fundraising, or prospective

financial information prepared for other purposes. Requirements and related application and other explanatory material setting out the additional special considerations applicable to the different types of financial information are to be read in conjunction with the core requirements and related applications and other explanatory material, as follows:

- (a) Historical financial information - refer requirements contained in paragraphs 96 to 98 inclusive and related application and other explanatory material contained in paragraphs A74 to A76 inclusive of this ASAE.
- (b) Pro forma historical financial information - refer requirements contained in paragraphs 99 to 107 inclusive and related application and other explanatory material contained in paragraphs A77 to A86 inclusive of this ASAE.
- (c) Prospective financial information - refer requirements contained in paragraphs 108 to 121 inclusive and related application and other explanatory material contained in paragraphs A87 to A97 inclusive of this ASAE.
- (d) Pro forma forecast - refer requirements contained in paragraphs 122 to 130 inclusive and related application and other explanatory material contained in paragraphs A98 to A105 inclusive of this ASAE.

Types of Assurance provided in the Engagement

8. The assurance practitioner may be requested to provide assurance on a single type of financial information (for example, prospective financial information), or multiple types of financial information (for example, pro forma forecast and prospective financial information). The assurance practitioner may be requested to provide limited or reasonable assurance on the financial information, or if the financial information is prospective, a mixture of limited and reasonable assurance on its different elements.
- (a) An example of a limited assurance engagement is a review of historical financial information.
 - (b) An example of a limited assurance engagement that involves providing assurance on multiple types of financial information is a review of historical financial information and pro forma historical financial information.
 - (c) An example of an assurance engagement that provides assurance on a mixture of limited and reasonable assurance on the different elements of the financial information involves prospective financial information.
 - (d) An example of an engagement that provides assurance on a mixture of limited and reasonable assurance on the different elements of multiple types of financial information involves prospective financial information and a pro forma forecast.

The assurance practitioner exercises professional judgement¹ in determining the type of assurance that is appropriate to the type of financial information and possible in individual engagement circumstances. (Ref: Para. A3)

9. In both reasonable and limited assurance engagements on financial information the assurance practitioner chooses a combination of assurance procedures which can include: inspection; observation; confirmation; recalculation; re-performance; analytical procedures; and enquiry. Determining the nature, timing and extent of assurance procedures to be performed on a particular engagement is a matter of professional judgement, taking into account the engagement circumstances (including type of assurance to be provided), and consequently is likely to vary considerably from engagement to engagement.
10. Unless otherwise stated, each requirement of this ASAE applies to both reasonable and limited assurance engagements. Because the level of assurance obtained in a limited assurance

¹ See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standard*, paragraph 12(k) for further guidance on the principle of “professional judgement”.

engagement is lower than in a reasonable assurance engagement, the procedures the assurance practitioner will perform in a limited assurance engagement will vary in nature from, and are less in extent than for, a reasonable assurance engagement.² Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements depending on the engagement circumstances.

Relationship with Other AUASB Standards

11. Assurance engagements other than audits or reviews of historical financial information are conducted in accordance with ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Assurance engagements that are reviews of historical financial information are conducted in accordance with ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* (if the assurance practitioner is not the auditor of the entity). Both ASRE 2405 and ASAE 3000 include requirements in relation to such topics as engagement acceptance, planning, performance, evidence, and documentation that apply to all assurance engagements, including those conducted in accordance with this ASAE. This ASAE deals with specific considerations in the application of ASRE 2405 and/or ASAE 3000 to assurance engagements relating to reporting on financial information related to corporate fundraisings and/or the reporting on prospective financial information for other purposes. *The Assurance Framework*, which defines and describes the elements and objectives of an assurance engagement, provides context for understanding this ASAE, ASRE 2405 and ASAE 3000.
12. This ASAE does not override the requirements of ASRE 2405 or ASAE 3000 which may apply in the engagement circumstances. It does not purport to deal with all the considerations that may be relevant in the engagement circumstances.

Objectives

13. The objectives of the assurance practitioner are:
 - (a) to obtain reasonable or limited assurance on, or a combination of reasonable and limited assurance, on the different elements of the financial information, as appropriate, about whether the financial information is presented fairly in accordance with the stated basis of preparation, thereby enabling the assurance practitioner to express a conclusion conveying that level of assurance;
 - (b) to report in accordance with the assurance practitioner's findings; and
 - (c) to communicate, as required by this ASAE, in accordance with the assurance practitioner's findings.

Definitions

14. For the purposes of this Standard on Assurance Engagements, the following terms have the meanings attributed below:
 - (a) Assumptions mean best-estimates made by the responsible party as to future events and actions expected to take place at the date the prospective financial information is prepared.
 - (b) Assurance report means a written report prepared by an independent assurance practitioner which may be either:
 - (i) included in a public document related to a fundraising. It may also be referred to as an Investigating Accountant's Report; or

² See *Assurance Framework*, paragraph 53, and ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, paragraphs 61-63 for further information.

- (ii) not included in a public document, but in another document (“non-public” document) that may be related to a fundraising or the preparation of prospective financial information for other purposes.

It may provide assurance on a single type of financial information (individual assurance report) or on multiple types of financial information (either a composite assurance report or separate assurance reports for each type of financial information).

- (c) AUASB Standards means standards issued by the Auditing and Assurance Standards Board (AUASB) comprising:
 - (i) Australian Auditing Standards;
 - (ii) Standards on Review Engagements;
 - (iii) Standards on Assurance Engagements; and
 - (iv) Standards on Related Services.
- (d) Base financial information means financial information that is used as the starting point for the application of pro forma adjustments by the responsible party. Base financial information is ordinarily historical in nature, however, it can also be prospective (for example a profit forecast). It may or may not have been previously audited or reviewed. Base financial information may also be referred to as unadjusted or source financial information.
- (e) Corporate fundraising (“fundraising”) means any transaction involving shares, debentures, units or interests in a management investment scheme undertaken to raise debt or equity funds, or issue equity, and/or offer and/or respond to an offer of, cash and/or scrip consideration to effect a transaction through the issuance of a public or non-public document. It includes initial public offerings, fundraisings³, takeovers, schemes of arrangement or other corporate restructures.
- (f) Different elements of prospective financial information means:
 - (i) the assumptions used in the preparation of the prospective financial information; (element 1)
 - (ii) whether it is prepared in accordance with the stated basis of preparation and on the basis of the assumptions referred to in (i) above; (element 2) and
 - (iii) whether the prospective financial information itself is reasonable. (element 3)
- (g) Document means a public document or non-public document related to a corporate fundraising and/or the reporting on prospective financial information for other purposes.
- (h) Engaging party means the body or person(s) that requested the services of the assurance practitioner for the assurance engagement. The engaging party is ordinarily the responsible party, as defined in paragraph (bb) of this ASAE. References in this ASAE to “responsible party” are taken to include the engaging party unless otherwise stated.
- (i) Entity means the entity responsible for the preparation and issuance of the public document or other document.
- (j) Event(s) or transaction(s) means underlying event(s) or transaction(s) that is (are):
 - (i) primarily the subject of the document; or

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

- (ii) not the subject of the document but the effect(s) of which have been reflected in the financial information.
- (k) Financial information means information of a financial nature prepared by the responsible party in the form of:
 - (i) historical financial information;
 - (ii) pro forma historical financial information;
 - (iii) prospective financial information; or
 - (iv) a pro forma forecast.
- (l) 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 relates to events occurring in past time periods or about conditions or circumstances at points in time in the past.⁴
- (m) Hypothetical assumptions means assumptions made by the responsible party in preparing prospective financial information in the form of a projection about future events and management actions which are not necessarily expected to take place or that are expected to take place but are not based on reasonable grounds.⁵
- (n) Limited assurance engagement means an assurance engagement in which the assurance practitioner reduces 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. The set of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement, but is planned to obtain a level of assurance that is, in the assurance practitioner's professional judgement acceptable in the circumstances of the assurance engagement. An example of a limited assurance engagement is a review.
- (o) Management means the person(s) with executive responsibility for the conduct of the operations or individual business units of the entity. For some entities, in some circumstances, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.
- (p) Materiality means that if certain information is omitted, misstated, or not disclosed, it has the potential to affect decisions of users of the document, or the discharge of accountability by the responsible party of the entity.
- (q) Material inconsistency means information within the document that materially contradicts the financial information that is the subject of the assurance report.
- (r) Misstatement of fact means information that is incorrectly stated or presented in the document. A material misstatement of fact may undermine the credibility of financial information that is the subject of the assurance report.
- (s) Multiple types of financial information means financial information that involves more than one form. Refer (k) for the different forms covered by this ASAE.
- (t) Non-public document means a document provided to internal or external parties in relation to a fundraising or the reporting on prospective financial information, which is not included in a public document. It is not prepared in accordance with the *Corporations Act 2001*.

⁴ See ASA 200, paragraph Aus 13.1, for guidance on determining the nature of historical financial information for an assurance engagement.

⁵ See RG 170 *Prospective Financial Information*, issued by the Australian Securities and Investments commission (ASIC) (April 2011) for further guidance on hypothetical assumptions.

- (u) Pro forma adjustments means adjustments selected by the responsible party to make to unadjusted financial information to:
- (i) illustrate the impact of a significant event or transaction (“event” or “transaction”) as if the event had occurred or the transaction had been undertaken at an earlier date than actual or not occurred at all, for the purposes of the illustration; or
 - (ii) eliminate the effects of unusual or non-recurring transactions that are not part of the normal operations of the entity; or
 - (iii) correct errors or uncertainties.
- Pro forma adjustments include the relevant financial information of a business that has been, or is to be, acquired, or a business that has been, or is to be, divested, to the extent that such information is used in compiling the pro forma financial information.
- (v) Pro forma financial information means non-IFRS financial information that is intended to show the effects of proposed or completed transactions for illustrative purposes⁶. The non-IFRS financial information is adjusted by pro forma adjustments to illustrate the impact of an event(s) or transaction(s) on that financial information as if the event had occurred, or the transaction had been undertaken, at an earlier date selected for the purposes of the illustration, ordinarily the beginning of the reporting period. It is subject to assumptions inherent in the responsible party’s stated basis of preparation.
- (w) Prospective financial information means financial information of a predictive character prepared based on assumptions made by the responsible party. Prospective financial information may be either:
- (i) a forecast which is prepared based on the responsible party’s assumptions as to future events expected to take place on the dates described, and the actions expected to be taken at the date the financial information is prepared. It is commonly referred to as a “directors’ forecast” (covered by this ASAE); or
 - (ii) a projection⁷ which is prepared based on hypothetical assumptions, or a mixture of assumptions and hypothetical assumptions (not covered by this ASAE).
- (x) Public document means a disclosure document, product disclosure statement or other documentation provided to shareholders, unit holders, or holders of a relevant interest in an entity (or which is provided to management of an entity) in relation to a scheme of arrangement under Part 5.1 of the *Corporations Act 2001*, or a takeover or compulsory acquisition under Chapter 6 of the *Corporations Act 2001*. Examples include:
- (i) A prospectus prepared by an entity that is a corporation in accordance with relevant sections of the *Corporations Act 2001*.⁸
 - (ii) A short-Form Prospectus; lodged with the Australian Securities and Investments Commission (ASIC), instead of including in the body of the prospectus the relevant information discussed in such materials.⁹
 - (iii) Scheme Booklets.

⁶ See RG 230 *Disclosing non-IFRS financial information* (December 2011), issued by ASIC for further guidance on pro forma information included in transaction documents such as those covered by this ASAE.

⁷ See RG 170, which contains guidance that prospective financial information that includes a projection (that is, supported by material hypothetical assumptions) rather than reasonable grounds is likely to be misleading and therefore is not permitted to be included in a public document.

⁸ See Sections 710, 711, and 713 of the *Corporations Act 2001*.

⁹ See Section 712 of the *Corporations Act 2001*.

- (iv) Target Statements.
- (v) Bidder Statements.
- (vi) Profile Statements; this is a brief statement that may be sent out with offers, with ASIC's approval, instead of a prospectus.¹⁰
- (vii) Offer Information Statements; this is a document that may be used instead of a prospectus under certain criteria set by the *Corporations Act 2001*.¹¹
- (viii) Product Disclosure Statements (PDS) used where the entity is a trust or other type of managed investment scheme.
- (y) Reasonable assurance engagement means an assurance engagement where the assurance practitioner reduces the assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement as the basis for the assurance practitioner's conclusion. An example of a reasonable assurance engagement is an audit of historical financial information.
- (z) Reasonable grounds means, in relation to a statement made, that there must be a sufficient objective foundation for that statement.¹²
- (aa) Relevant Date means as applicable:
 - (i) the allotment date;
 - (ii) the effective date of the relevant proposed fundraising;
 - (iii) the implementation date of the relevant proposed merger transaction; or
 - (iv) in the case of a scheme of arrangement, the date of the shareholders or unit-holders meeting to vote on the scheme.
- (bb) Responsible party means those charged with governance of the entity (ordinarily the Board of Directors), who are also responsible for the preparation and issuance of the financial information included in the 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 be different from the party that is the engaging party.
- (cc) Stated basis of preparation means the basis on which the responsible party has chosen to prepare the financial information that is acceptable in view of the nature of the entity, the objective of the public or non-public document, or is required by applicable law or regulation. An example of a basis may be the recognition and measurement principles contained in the Australian Accounting Standards (but not all the presentation and disclosure requirements) and the entity's adopted accounting policies, or a basis selected by the responsible party.
- (dd) Subsequent events mean events or facts that become known to the assurance practitioner after the date of the assurance report and prior to the relevant date.
- (ee) Takeover means the acquisition of control of listed or unlisted entities conducted in accordance with Chapter 6 of the *Corporations Act 2001*.

¹⁰ See Sections 705 and 721 of the *Corporations Act 2001*.

¹¹ 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.

¹² See RG 170, for further guidance on the concept of reasonable grounds.

Requirements

Complying with Standards that are Relevant to the Engagement

15. In respect of assurance engagements involving: (Ref: Para. A4)
- (a) reasonable or limited assurance on non-historical financial information, the assurance practitioner shall not represent compliance with this ASAE unless the assurance practitioner has complied with the requirements of both this ASAE and ASAE 3000; and/or
 - (b) limited assurance on historical financial information, the assurance practitioner shall not represent compliance with this ASAE unless the assurance practitioner has complied with the requirement of both this ASAE and ASRE 2405.
16. The assurance practitioner shall have an understanding of the entire section(s) of this ASAE that is applicable in the engagement circumstances, including the application and other explanatory material, to understand its objectives and to apply its requirements properly.

Ethical Requirements

17. The assurance practitioner shall comply with relevant ethical requirements relating to assurance engagements, including those pertaining to independence, and implement quality control procedures that are applicable to the individual engagement in accordance with ASA 102.¹³

Quality Control

18. The assurance practitioner shall establish and maintain a system of quality control in accordance with ASQC 1.¹⁴

Professional Scepticism

19. The assurance practitioner shall plan and perform the engagement with professional scepticism, recognising that circumstances may exist that causes the financial information to be materially misstated.

Professional Judgement

20. The assurance practitioner shall exercise professional judgement in planning and performing assurance engagements involving reporting on financial information or reporting on prospective financial information prepared for other purposes.

Inability to Comply with the Requirements of this ASAE or Other AUASB Standards

21. 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 requirement¹⁵ in this ASAE, the assurance practitioner shall:
- (a) if possible, perform appropriate alternative procedures;
 - (b) document in the working papers:
 - (i) the circumstances surrounding the inability to comply;

¹³ See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*, paragraph 5.

¹⁴ See ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

¹⁵ The concepts and discussion on which requirements are relevant in the circumstances of the audit engagement are contained in ASA 200 (paragraphs 22 and Aus 23.1), and may be helpful in determining how to ensure compliance with relevant requirements for assurance engagements related to a corporate fundraising.

- (ii) the reasons for the inability to comply; and
 - (c) justification of how alternative procedures achieve the objective(s) of the requirement.
22. When the assurance practitioner is unable to perform the appropriate alternative procedures, the assurance practitioner shall consider the implications for the engagement. (Ref: Para. A5)

Assurance Engagement Acceptance

Preconditions for Acceptance (Ref: Para. A6-A7)

23. In order to establish whether the preconditions for the engagement are present, the assurance practitioner shall obtain agreement from the responsible party that they:
- (a) understand and accept the terms of the assurance engagement, including the assurance practitioner's reporting responsibilities and the type(s) of assurance to be expressed;
 - (b) acknowledge and understand their responsibility for:
 - (i) the preparation of the financial information in accordance with the stated basis of preparation;^{16,17}
 - (ii) determining the applicable time period to be covered by the financial information;
 - (iii) the selection, development, adequate disclosure and consistent application of the stated basis of preparation in the document; the contents, preparation and issuance of the document¹⁸ in which the financial information is contained;
 - (iv) complying with the requirements of all applicable laws and regulations in the preparation of the financial information and the document;¹⁹ and
 - (v) such internal control as is determined to be necessary to enable the preparation of financial information that is free from material misstatement; and
 - (c) will provide the assurance practitioner with:
 - (i) unrestricted access to all requested information relevant to the financial information;
 - (ii) unrestricted access to those persons within the entity or the responsible party's experts, from whom the assurance practitioner determines it is necessary to obtain evidence;
 - (iii) a listing of all known uncorrected misstatements in the financial information, together with an acknowledgement that the responsible party is responsible for confirming that such misstatements are immaterial; and

¹⁶ The concepts and discussions on the audit of historical financial information in the form of a complete set of financial statements that is prepared in accordance with a special purpose framework (that is, other than a general purpose framework) are contained in ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*. It may be helpful in assisting the assurance practitioner's special considerations in planning, performing and providing reasonable assurance on this type of historical financial information related to fundraisings. Alternatively, ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* contains the concepts and discussions on the review of historical financial information in the form of a complete set of financial statements. It may be helpful in assisting the assurance practitioner to plan, design, perform and provide limited assurance on historical financial information related to fundraisings.

¹⁷ If the historical financial information is in the form of a single financial statement (s), or specific elements, accounts or items of a financial statement, then in addition to ASA 800, ASA 805 *Special Consideration—Audits of Single Financial Statements and Specific Elements, Accounts or Items of Financial Statement* may be helpful in assisting the assurance practitioner's special considerations in planning, performing and providing reasonable assurance on this type of historical financial information related to fundraisings.

¹⁸ The *Corporations Act 2001* places specific requirements on directors in relation to the preparation of public documents, including presentation of financial information included therein.

¹⁹ For example, See RG 228 *Prospectus: Effective Disclosure for retail investors* (November 2011), issued by ASIC for further guidance in respect of public documents.

- (iv) written representations covering all matters requested by the assurance practitioner in relation to the engagement, within the timeframe required.

Other Factors Affecting Engagement Acceptance

24. The assurance practitioner shall accept the engagement only when:
- (a) on the basis of preliminary knowledge of the assurance engagement circumstances, nothing has come to the assurance practitioner's attention to indicate that:
 - (i) the requirements of the relevant ethical principles described in ASA 102 will not be satisfied;
 - (ii) the stated basis of preparation chosen by the responsible party, and used in the preparation of the financial information, is misleading or deceptive;
 - (iii) there will be significant limitations on the scope of the assurance practitioner's work; and
 - (iv) the responsible party intends to associate the assurance practitioner's name with the financial information in an inappropriate manner;
 - (v) the time period covered by the financial information is not acceptable;²⁰ and
 - (vi) the assurance engagement does not have a rational purpose;²¹
 - (b) the preconditions for the engagement, as stated in paragraph 23 of this ASAE are present;
 - (c) the type(s) of assurance requested by the responsible party is/(are) acceptable to the assurance practitioner;
 - (d) the assurance practitioner has the capabilities, competence and necessary qualifications to perform the engagement; and
 - (e) the assurance practitioner believes that the assurance report will be used for its intended purpose.
25. If the preconditions for the assurance engagement or other factors affecting engagement acceptance as set out in paragraphs 23 and 24 of this ASAE are not present, the assurance practitioner shall discuss the matter with the responsible party. If changes cannot be made to meet the preconditions, the assurance practitioner shall not accept the engagement as an assurance engagement, unless required by applicable law or regulation.

Agreeing on the Terms of the Assurance Engagement

26. The agreed terms of the assurance engagement shall include, at a minimum: (Ref: Para. A8, A10)
- (a) the objective(s) and scope of the assurance engagement, including:
 - (i) the assurance practitioner's understanding of the purpose of the assurance engagement, the nature and source of the financial information covered, and the intended users of the assurance report;
 - (ii) confirmation that the assurance practitioner will conduct the engagement in accordance with this ASAE;

²⁰ See RG 170, for further guidance on what is an acceptable time period. It is ordinarily the case that the longer the period, the less likely it is that there are reasonable grounds for disclosure.

²¹ See ASAE 3000, paragraph 17(b)(v), for further guidance.

- (iii) a statement that the assurance practitioner is not responsible for the preparation of the financial information or for the selection of its stated basis of preparation;
 - (iv) in connection with a non-public document, a statement that the assurance practitioner will disclaim responsibility for any reliance on the assurance report by any party other than intended users, for any purpose other than that for which the assurance report was prepared;
 - (v) if applicable, a statement that an audit is not being performed and that consequently, an audit opinion will not be expressed;
 - (vi) the type(s) and proposed wording of the assurance conclusion; and
 - (vii) a statement that the engagement cannot be relied upon to identify fraud, error(s), illegal act(s) or other irregularities that may exist within the entity;
- (b) the responsibilities of the assurance practitioner, including:
- (i) compliance with relevant ethical requirements, including independence;
 - (ii) performing assurance procedures on the financial information to obtain sufficient appropriate evidence for the type(s) of assurance required;
 - (iii) issuing a written assurance report and any other report agreed with the responsible party;²² and
 - (iv) if applicable, and once satisfied it is appropriate to, providing consent in the required form to the responsible party for the inclusion of the assurance practitioner's name and assurance report in the document;
- (c) the responsibilities of the responsible party including those set out in paragraphs 23(b) and 23(c) of this ASAE; and
- (d) such other terms and conditions that the assurance practitioner determines are appropriate in the engagement circumstances. (Ref: Para. A8)

Changes in the Terms of the Engagement

27. The assurance practitioner shall not agree to a change in the terms of the assurance engagement where there is no reasonable justification for doing so. If such a change is made, the assurance practitioner shall not disregard evidence that was obtained prior to the change. (Ref: Para. A11)
28. If the terms of the assurance engagement are to change, the assurance practitioner and the responsible party shall agree on, and record, the new terms of the assurance engagement in an engagement letter or other suitable form of written agreement. (Ref: Para. A12)
29. If the assurance practitioner is unable to agree to a change in the terms of the engagement, and is not permitted by the responsible party to continue the original engagement, the assurance practitioner shall:
- (a) withdraw from the engagement, where possible under applicable law or regulation; and
 - (b) determine whether there is any obligation, either contractual or otherwise, to report the circumstances to parties other than the responsible party.

²² See ASA 260 *Communication with Those Charged with Governance* for guidance on specific matters that may be communicated in an audit engagement that may be helpful in an assurance engagement involving reasonable assurance on historical financial information. Additionally, ASRE 2405 provides guidance on specific matters that may be communicated in a review engagement on historical financial information that may also be helpful in an assurance engagement that involves a review of financial information that is historical.

Planning the Engagement

30. The assurance practitioner shall plan the engagement so that it will be performed effectively.²³
(Ref: Para. A13)

Planning Activities

31. The assurance practitioner's planning procedures shall include, at a minimum:
(Ref: Para. A14-A15)
- (a) establishing an overall engagement strategy that sets the scope, timing and direction of the engagement and that guides the development of the plan;
 - (b) ascertaining the responsible party's reporting objectives and key milestones of the engagement, to plan the timing of the engagement and the nature of the communications required;
 - (c) considering the factors that in the assurance practitioner's professional judgement are significant in directing the engagement team's efforts;
 - (d) considering the results of preliminary engagement activities, including engagement acceptance;
 - (e) if applicable, whether knowledge gained from other engagements performed by the engagement partner for the entity is relevant;
 - (f) considering the nature, timing and extent of planned risk assessment procedures;²⁴
 - (g) assessing assurance engagement risk;²⁵ (Ref: Para. A16)
 - (h) determining if the entity's auditor will need to be contacted in respect of the audit opinion or review conclusion expressed on the latest financial report; and
 - (i) ascertaining the nature, timing and extent of resources necessary to perform the engagement, including considering the involvement of experts.

Materiality in Planning and Performing the Engagement

Determining Materiality when Planning the Engagement (Ref: Para. A17-A18)

32. When establishing the overall engagement strategy, the assurance practitioner shall determine materiality for the financial information.
33. The assurance practitioner shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further procedures.

Revision as the Engagement Progresses

34. The assurance practitioner shall revise materiality in the event of becoming aware of information during the engagement that would have caused the assurance practitioner to have determined a different amount initially. (Ref: Para. A19)

²³ See ASAE 3000, paragraphs 25-26 or ASRE 2405, paragraphs 25-27, as appropriate.

²⁴ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, for guidance on planned risks assessment procedures which may be helpful.

²⁵ See ASA 200, paragraphs A32-A44 for guidance on the different elements of assurance engagement risk.

Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and Its Environment

35. If the assurance practitioner does not have a prior knowledge of the entity, the assurance practitioner shall, at a minimum, obtain an understanding of:
- (a) the nature of the entity, any acquiree or divestee whose financial information is included in the financial information that is the subject of the assurance report including: (Ref: Para. A20)
 - (i) its size, complexity, industry in which it operates, its ownership, financial and regulatory structures, key strategies and products/services, competitors, regulatory environment, management structure, and available financial resources;
 - (ii) its operating history;
 - (iii) if applicable, any changes from the prior period in the nature or extent of its operations, including whether there have been any mergers and/or acquisitions; and
 - (iv) its assets and liabilities;
 - (b) relevant industry, legal and regulatory and other external factors pertaining to the entity and any acquiree or divestee; and (Ref: Para. A21-A23)
 - (c) the stated basis of preparation of the entity and of any acquiree or divestee and how these differ, if any, to the accounting policies contained in the most recent financial report. (Ref: Para. A24)
36. Notwithstanding any prior knowledge, the assurance practitioner shall, at a minimum, obtain an understanding of:
- (a) the stated basis of preparation chosen by the responsible party for the financial information, if it is different from prior audited or reviewed historical financial information also included in the document, and if so, why;
 - (b) the financial information, including:
 - (i) its type,²⁶ source, and nature;²⁷
 - (ii) the time period covered and reasons for its selection;
 - (iii) its intended use;
 - (iv) the extent to which it is affected by the responsible party's judgements;
 - (v) obtaining an understanding of whether comparative information is to be included in the document, and whether it will be restated, if so, why;
 - (vi) identifying relevant financial information available in the public domain;
 - (vii) developing expectations for use when performing analytical procedures;
 - (viii) whether the entity's financial report has already been audited or reviewed, and if so whether the audit or review was conducted in accordance with Australian

²⁶ For example, historical financial information, pro forma historical financial information, prospective financial information, or pro forma forecast.

²⁷ For example, its relevance, completeness, reliability and understandability.

Auditing Standards; and what type of audit opinion or review conclusion was expressed in the auditor's report;

- (ix) if any part of the financial information has been audited or reviewed;
 - (x) whether the entity's financial information is subject to periodic review by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements;
 - (xi) whether it has been prepared on a consistent basis with that of any prior period audited or reviewed historical financial information included in the document. For example, the audited or reviewed comparatives may have been restated by the responsible party to ensure consistency of basis of preparation²⁸; and
 - (xii) whether adjustments have been made that were previously considered immaterial in the prior period audit or review of the financial report;
- (c) the event(s) and transaction(s) that may have a significant impact on the preparation of the financial information;
 - (d) the nature and type of other information to be included in the document, if available, sufficient to enable the assessment of whether it is consistent with the financial information;
 - (e) the requirements of any applicable law or regulation that may impact the financial information;²⁹
 - (f) the expertise of the preparers of the financial information; and
 - (g) internal control over the process used to prepare the financial information.
37. The understanding required in paragraph 36 of this ASAE shall be:
- (a) sufficient to enable the assessment of any risks that the financial information may not be prepared in accordance with the stated basis of preparation; and
 - (b) enable the assurance practitioner to plan and design assurance procedures appropriate to the type of assurance required.

Other Procedures to Obtain an Understanding and to Identify and Assess Risks of Material Misstatement

38. If the assurance practitioner has performed other engagements for the entity, the assurance practitioner shall consider whether information obtained is relevant to identifying and assessing risks of material misstatement. (Ref: Para. A25)
39. The assurance practitioner shall make enquiries of the responsible party, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud or non-compliance with laws and regulations affecting the financial information.
40. The engagement partner and other key members of the engagement team, and any key assurance practitioner's external experts, shall discuss the susceptibility of the entity's financial information to material misstatement whether due to fraud or error, and the application of the stated basis of preparation to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to members of the engagement team, and to any assurance practitioner's external experts not involved in the discussion.

²⁸ See RG 230 and RG 228, for further guidance on the nature and type of comparatives that should be included in a public document.

²⁹ Prospective financial information included in a public document under the *Corporations Act 2001* is required to be based on reasonable grounds to be considered not misleading. See section 728(2) and section 769C of the *Corporations Act 2001*. 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.

Procedures to Obtain an Understanding and to Identify and Assess Risks of Material Misstatement

41. The procedures to obtain an understanding of the entity and its environment, and to identify and assess risks of material misstatement shall include the following:
- (a) Enquiries of those persons within the entity who, in the assurance practitioner's judgement, have information that is likely to assist in identifying and assessing risks of material misstatement.
 - (b) Analytical procedures. (Ref: Para. A26-A28)
 - (c) Observation and inspection. (Ref: Para. A29-A31)

Identifying and Assessing Risks of Material Misstatement

42. The assurance practitioner shall identify and assess risks of material misstatement in the financial information, and at the assertion level for material types of accounts within the financial information, as the basis for designing and performing procedures whose nature, timing and extent are responsive to assessed risks of material misstatement and allow the assurance practitioner to obtain the required level of assurance. (Ref: Para. A32-A33)
43. If the assurance practitioner has prior knowledge of the entity, gained from performing other engagements, the assurance practitioner shall consider whether the information obtained from these engagements is relevant to identifying and assessing risks of material misstatement in this engagement.

Reliance on the work performed by others (Ref: Para. A34(a))

44. The assurance practitioner shall consider whether to use the work of any expert,³⁰ including a responsible party's expert,³¹ or other assurance practitioner, for the purposes of the engagement, taking into account the following:
- (a) whether the assurance practitioner can obtain access to the relevant working papers supporting the expert's report;
 - (b) the purpose for which the work was performed and the risks of material misstatement to which the expert's work relates;
 - (c) the significance of the expert's work in the context of the engagement; and
 - (d) any prior knowledge and experience obtained of the work performed by that expert.
45. If the assurance practitioner does intend to place reliance on the work of the expert for the purposes of the engagement, the assurance practitioner shall consider if a written acknowledgement by the expert or other assurance practitioner is required in order for the assurance practitioner to rely on the work performed; and if so, shall request such an acknowledgement.
46. If the expert does not provide a required written acknowledgement, the assurance practitioner shall consider what additional procedures, if any, are required for the assurance practitioner's purposes in order to place reliance on the work in order to be able to conclude on whether the base financial information has been prepared in accordance with the stated basis of preparation.
47. If the expert does permit reliance to be placed on the work performed, the assurance practitioner shall request access to the expert's working papers in order to:

³⁰ The concepts and discussions on auditors 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 by an assurance practitioner in an assurance engagement.

³¹ The concepts and discussions on auditors assessing and placing reliance on the work performed by the entity's expert are contained in ASA 500 *Audit Evidence* and may be helpful in determining the extent of reliance by an assurance practitioner in an assurance engagement.

- (a) evaluate the competence, capabilities, objectivity and independence of that expert;
- (b) understand the scope, timing, type of work performed and outcomes;
- (c) evaluate the appropriateness of the work performed as evidence for the purposes of the engagement;
- (d) if applicable, understand the materiality levels set by the expert;
- (e) if applicable, evaluate the expert's work methodology;
- (f) if applicable, evaluate any audit or review differences identified by that expert;
- (g) understand the type of audit opinion, review conclusion or report issued by that expert, and if applicable, the reasons for any modification;
- (h) if applicable, ascertain whether the financial information has been prepared in accordance with the stated basis of preparation of the entity;
- (i) determine, based on the results of the expert's work, whether additional assurance procedures will be required to be performed on the financial information in order to obtain sufficient appropriate evidence on which to base the required assurance conclusion; and
- (j) if applicable, evaluate whether the other assurance practitioner's audit opinion or review conclusion was modified, and determine the implications for the engagement, including considering:
 - (i) the assurance practitioner's ability to undertake the engagement in accordance with the agreed terms; and
 - (ii) the potential impact, if any, on the assurance procedures to be performed.

Causes of Risks of Material Misstatement

48. When designing the procedures required by paragraph 42 of this ASAE, the assurance practitioner shall consider the following factors:
- (a) the likelihood of intentional misstatement in the financial information;
 - (b) applicable law or regulatory requirements with respect to the preparation or presentation of the financial information;
 - (c) the complexity and degree of subjectivity underlying calculations included in the financial information; and
 - (d) how the responsible party makes all significant accounting estimates included in the financial information. (Ref: Para A35)

Overall Responses to Assessed Risks of Material Misstatement and Further Procedures

Assurance Procedures

49. The assurance practitioner shall design and implement overall responses to address the assessed risks of material misstatement of the financial information. (Ref: Para. A36-A37)
50. The assurance practitioner shall use professional judgement to design and perform assurance procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, after considering:

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Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information (Re-issuance of AUS 804 and AGS 1062)

- (a) the likelihood of material misstatement in the financial information due to the particular characteristics of the financial information (that is, the inherent risk); (Ref: Para. A38-A39)
 - (b) obtaining more persuasive evidence the higher the assurance practitioner's assessment of risk; and (Ref: Para. A40)
 - (c) if applicable, in a reasonable assurance engagement:
 - (i) irrespective of the assessed risks of material misstatement, designing and performing tests of details or analytical procedures for each material account balance within the financial information; and
 - (ii) considering whether external confirmation procedures are to be performed. (Ref: Para. A41)
51. In designing analytical procedures, the assurance practitioner shall determine the suitability of particular analytical procedures in relation to the financial information, taking into consideration the assessed risks of material misstatement of the financial information.
52. The assurance procedures shall, at the minimum, include:
- (a) if applicable, in respect of comparative information:
 - (i) comparing, for consistency, its basis of preparation against the entity's previously audited or reviewed historical financial information, assessing the reasons for any differences, and ensuring any restatements or adjustments made are appropriate;
 - (ii) comparing, for consistency, its stated basis of preparation with the prior time period financial report, and if applicable, the most recent annual or interim financial report; and
 - (iii) reading the most recent audited or reviewed financial report in order to identify any matters that may affect the financial information;
 - (b) enquiring of the responsible party in respect of the financial information:
 - (i) of the reasonableness and appropriateness of the time period covered;
 - (ii) that it agrees to, and has been reconciled to underlying, supporting accounting records and documentation;
 - (iii) that it reflects any changes made to the stated basis of preparation from the most recent audited or reviewed financial statements;
 - (iv) that it reflects the results of any identified misstatements from the prior year's financial statements; and
 - (v) if any part of the financial information been previously audited or reviewed, that it agrees to those audited or reviewed records;
 - (c) if applicable, in a reasonable assurance engagement, performing external confirmation procedures in respect of material balances within the financial information;
 - (d) performing the analytical procedures referred to in paragraph 51 of this ASAE on the financial information that the assurance practitioner considers are responsive to the assessed risks of material misstatement in the financial information: (Ref: Para. A42)
 - (i) evaluating the reliability of data from which the assurance practitioner's expectation of recorded amounts or ratios is developed, taking account of the source, comparability, and nature and relevance of information available;

- (ii) developing an expectation with respect to recorded amounts or ratios in the financial information; and
- (iii) if applicable, in a reasonable assurance engagement, the expectation developed in (d)(ii) above must be sufficiently precise to identify possible material misstatements in the financial information;
- (e) if applicable, in a reasonable assurance engagement, performing tests of details of material classes of transactions or account balances within the financial information;
- (f) if applicable, in respect of material accounting estimates included in the financial information: (Ref: Para. A43-A44)
 - (i) confirming that the responsible party has appropriately applied the requirements of the stated basis of preparation relevant to accounting estimates;
 - (ii) verifying the chosen methodology for making accounting estimates:
 - ◆ has been applied consistently;
 - ◆ is appropriate when compared with the most recent audited/reviewed financial statements;
 - ◆ reflects any changes in methodology from prior periods; and
 - ◆ any changes in methodology are consistent with the stated basis of preparation;
 - (iii) considering whether other procedures are necessary in the circumstances;
 - (iv) if applicable, in a reasonable assurance engagement:
 - ◆ test how the responsible party made the accounting estimate and the data on which it is based, including evaluating whether the method of quantification used is appropriate in the circumstances, and the assumptions used by the responsible party are reasonable; and
 - ◆ develop a point estimate or a range to evaluate the responsible party's estimate. For this purpose:
 - ◇ if the assurance practitioner uses assumptions or methods that differ from the responsible party, the assurance practitioner shall obtain an understanding of the responsible party's assumptions or methods sufficient to establish that the assurance practitioner's point estimate or range takes into account relevant variables and to evaluate any significant differences from the responsible party's point estimate; and
 - ◇ if the assurance practitioner concludes that it is appropriate to use a range, the assurance practitioner shall narrow the range, based on evidence available, until all outcomes within the range are considered reasonable;
- (g) in respect of the stated basis of preparation:
 - (i) understanding the process for its selection and approval;
 - (ii) understanding what accounting policies have been adopted;
 - (iii) assessing its reasonableness, appropriateness and suitability for presenting the significant effects attributable to the event(s) or transaction(s) that is the subject of the document by understanding the nature, effect of, and reasons for

- any changes made to the stated basis of preparation as compared to that used in the most recent audited or reviewed financial statements;
- (iv) performing consistency checks in the application of the stated basis of preparation to the financial information; and
 - (v) assessing, based on the assurance practitioner's understanding, whether the stated basis of preparation is adequately described in the document;
- (h) assessing the appropriateness and suitability of any adjustments made by the responsible party as compared to the stated basis of preparation; and
- (i) enquiring of the responsible party and/or other parties³² relating to whether there were:
- (i) any changes in accounting policies, financial reporting practices and other reporting requirements that occurred during the time period under examination;
 - (ii) any corrections made to convert the financial information from an overseas jurisdiction's generally accepted accounting principles to the stated basis of preparation;
 - (iii) any unadjusted audit differences from the most recently audited or reviewed financial report that may be material for the purposes of the document;
 - (iv) the treatment of any provisions and other significant accounting estimates (such as asset revaluations) in the financial information;
 - (v) any significant transactions with related parties (for example, assets purchased from an associated entity); and
 - (vi) making other relevant enquiries of the responsible party, other experts and relevant parties.
53. If the analytical procedures described in paragraph 52(d) of this ASAE identify fluctuations or relationships that are inconsistent with other relevant information, or differ significantly from expected amounts or ratios in the financial information, the assurance practitioner shall investigate such differences by:
- (a) enquiring of the responsible party;
 - (b) evaluating the responses received; and
 - (c) if applicable, in a reasonable assurance engagement: (Ref: Para. A45)
 - (i) determining whether other procedures are necessary in the circumstances; and
 - (ii) obtaining additional evidence supporting the responsible party's responses to the enquiries made.

Sampling

54. If sampling is used, the assurance practitioner shall, when designing the sample, consider the purpose of the sampling procedure and the characteristics of the population from which the sample will be drawn. (Ref: Para. A46)

³² 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 for the purposes of an assurance engagement.

Oral Representations

55. If the assurance practitioner obtains oral representations from the responsible party in respect of matters supporting the financial information, the assurance practitioner shall:
- (a) evaluate their reasonableness and consistency with other evidence obtained, including other representations;
 - (b) consider whether those making the representations can be expected to be well informed on the particular matters;
 - (c) obtain appropriate corroborative evidence;³³ and
 - (d) document the key aspects of the oral representation.

Additional Procedures

56. The assurance practitioner shall remain alert throughout the engagement for any event(s), condition(s), transaction(s), or error(s) that may:
- (a) cast doubt over the reliability, accuracy, or completeness of the information used by the assurance practitioner as evidence for the financial information; and/or
 - (b) require a reassessment, or revision, of the assurance practitioner's risk assessment; and/or
 - (c) require changes, or additions, to the planned assurance procedures in order to obtain sufficient appropriate evidence on which to base the assurance conclusion on the financial information. (Ref: Para. A47)
57. If the assurance practitioner becomes aware of an event(s), condition(s), transaction(s) or error(s) that causes the assurance practitioner to believe the financial information may be materially misstated, the assurance practitioner shall use professional judgement to design and perform additional procedures sufficient to enable the assurance practitioner to: (Ref: Para. A47)
- (a) conclude that the event(s), condition(s), transaction(s) or error(s) is (are) not likely to cause the financial information to be materially misstated; or
 - (b) determine that the event(s), condition(s), transaction(s) or error(s) cause(s) the financial information to be materially misstated.

Identified Misstatements

58. The assurance practitioner shall accumulate misstatements identified during the engagement, other than those that are clearly trivial. (Ref: Para. A48-A49)
59. The assurance practitioner shall determine whether the overall engagement strategy and engagement plan need to be revised if:
- (a) the nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements already identified, could be material; or
 - (b) the aggregate of identified misstatements already accumulated approaches materiality levels set in accordance with paragraphs 32 and 33 of this ASAE.

³³ 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.

Communication and Correction of Misstatements

60. Prior to evaluating the effect of any identified uncorrected misstatements the assurance practitioner shall reassess materiality determined in accordance with paragraphs 32 and 33 of this ASAE to confirm whether it remains appropriate in the context of the financial information.
61. The assurance practitioner shall determine whether the uncorrected misstatements are material, individually or in the aggregate to the financial information, taking into consideration the size and nature of the misstatements, and the particular circumstances of their occurrence.
62. If the assurance practitioner believes that it is necessary to correct a identified misstatement for the financial information to be prepared in accordance with the stated basis of preparation, the assurance practitioner shall communicate this as soon as practicable to the responsible party to enable them to make the correction.
63. If, at the assurance practitioner's request, the responsible party has corrected misstatements that were detected, the assurance practitioner shall perform additional procedures on the corrected misstatements to ensure they have been appropriately made and determine whether any material misstatements remain in the financial information.
64. If the responsible party refuses to correct some or all of the identified misstatements in the financial information communicated by the assurance practitioner, the assurance practitioner:
 - (a) shall obtain an understanding of the responsible party's reasons for not making the adjustments, and take this into account when forming the assurance practitioner's conclusion; and
 - (b) if the misstatement is material, the assurance practitioner shall express an adverse conclusion in accordance with paragraph 86(b) of this ASAE.

Evidence

65. The assurance practitioner considers the adequacy, relevance and reliability of the information obtained as evidence and shall evaluate whether the assurance practitioner has obtained sufficient appropriate evidence³⁴ on which to express an assurance conclusion on the financial information. (Ref: Para. A50)

Other Information Included in the Document

66. When the document containing the financial information includes, or will include, other information, the assurance practitioner shall request from the responsible party a copy of that document and read its entire contents for the sole purpose of identifying any material inconsistencies with, or material misstatements of fact in relation to, the financial information. (Ref: Para. A51-50)
67. If the assurance practitioner:
 - (a) identifies a material inconsistency between the other information and the financial information; and/or
 - (b) becomes aware of a material misstatement of fact in that other information that is related to the financial information; and/or
 - (c) identifies a potentially misleading or deceptive statement in relation to the financial information;the assurance practitioner shall discuss this with the responsible party and:

³⁴ The concepts and discussions on the sufficiency and appropriates of evidence related to an audit engagement are contained in ASA 500 and may be helpful in evaluating the evidence for an assurance engagement.

- (d) if the responsible party agrees to a revision of the document the assurance practitioner shall request an updated copy of the document in order to ensure the revision has been made; or
- (e) if the responsible party refuses to make the revision, the assurance practitioner shall consider whether to:
 - (i) obtain legal advice on the appropriate course of action for the assurance practitioner; and/or
 - (ii) include in the assurance report an Other Matter paragraph³⁵ that describes the material inconsistency and/or misstatement of fact; and/or
 - (iii) withdraw consent for the responsible party to include the assurance report in the document; and/or
 - (iv) withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

Going Concern Considerations

- 68. The assurance practitioner shall determine if an assessment of the entity's ability to continue as a going concern is relevant to the engagement.³⁶ (Ref: Para. A53)
- 69. If the assurance practitioner determines that an assessment of the entity's ability to continue as a going concern is relevant, the assurance practitioner shall perform such an assessment in order to obtain sufficient appropriate evidence regarding the appropriateness of the responsible party's use of the going concern assumption in the preparation of the financial information. (Ref: Para. A54)
- 70. If the assurance practitioner concludes the entity is not a going concern, or if there is a material uncertainty related to event(s) or condition(s) that individually, or collectively, may cast significant doubt on the entity's ability to continue as a going concern, the assurance practitioner shall consider the implications for the engagement and the assurance report. (Ref: Para. A55)

Consideration of Events Up to the Date of the Assurance Report (Ref: Para. A56-A57)

- 71. The assurance practitioner shall consider the impact of any event(s), transaction(s), correction(s), or error(s) of which the assurance practitioner becomes aware, that may materially affect the historical financial information, for the time period up to and including the date of the assurance report.³⁷
- 72. The assurance practitioner shall discuss with the responsible party any such event(s), transaction(s), correction(s), or error(s) identified during the engagement in order to establish whether the effect on the financial information is material. If the effect is material, the assurance practitioner must perform additional procedures to confirm if the event(s), transaction(s), correction(s), or error(s) has (have) been corrected in the financial information and/or elsewhere in the document, if applicable. If the required correction is not made, the assurance practitioner shall consider what further action is appropriate in the engagement circumstances, including the implications for the assurance report.
- 73. The assurance practitioner shall revoke any consent to include the assurance report in the document that may have been previously provided, if the event(s), transaction(s),

³⁵ 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, and may be helpful in determining its form, content and location in the assurance report applicable to an assurance engagement.

³⁶ The concepts and discussions on the going concern assessment relevant to an audit engagement are contained in ASA 570 *Going Concern*, and may be helpful in performing a going concern assessment in an assurance engagement. Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, paragraphs 25-26 contains relevant guidance on the going concern assessment.

³⁷ The concepts and discussions on the subsequent events relevant to a financial report audit engagement are contained in ASA 560 *Subsequent Events*, and may be helpful in assessing subsequent events in an assurance engagement.

correction(s), or error(s) referred to in paragraph 72 of this ASAE is (are) not, in the assurance practitioner's professional judgement, appropriately addressed by the responsible party.

Consideration of Events Identified After the Date of the Assurance Report (Ref: Para. A58-A59)

74. If the assurance practitioner becomes aware of event(s), transaction(s) or error(s) after the date of the issuance of the assurance report and before the relevant date that may have caused the assurance practitioner to amend the assurance report, had the assurance practitioner known of such matters at the date of that assurance report, the assurance practitioner shall:
- (a) discuss such event(s), condition(s), transaction(s) or error(s) with the responsible party; and
 - (b) consider what further action is appropriate in the engagement circumstances, including the implications for the assurance report.
75. The assurance practitioner shall revoke any consent to include the assurance report in the document that may have been previously provided, if the event(s), transaction(s), correction(s), or error(s) referred to in paragraph 74 of this ASAE are not, in the assurance practitioner's professional judgement, appropriately addressed by the responsible party.

Written Representations

76. The assurance practitioner shall request the responsible party to provide written representations at the completion of the engagement containing the following:
(Ref: Para. A60-A63)
- (a) those described in paragraphs 23(b) and 23(c) of this ASAE;
 - (b) confirmation of the intended use of the financial information;
 - (c) confirmation that the going concern basis of preparation of the financial information is appropriate in the document;
 - (d) confirmation that there are no currently anticipated material changes to be made to the financial information between the date of the assurance report and the relevant date;
 - (e) confirmation that there has been no event(s), transactions, error(s) or other matter(s) that has(have) arisen or been discovered subsequent to the preparation of the financial information that may impact, or require adjustment to, the financial information;
 - (f) providing the assurance practitioner with a listing of all known uncorrected immaterial misstatements in the financial information, together with an acknowledgement that the responsible party is responsible for confirming that such misstatements are immaterial; and
 - (g) such other written representations that the assurance practitioner determines are appropriate in the engagement circumstances.
77. The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report.
78. If the assurance practitioner has sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or if the representations received are inconsistent with other evidence, the assurance practitioner shall:
- (a) if practical, discuss the matter(s) with the responsible party;
 - (b) perform other procedures to attempt to resolve any inconsistencies;
 - (c) re-evaluate the integrity of the responsible party and evaluate the effect this may have on the reliability of representations (oral or written) and evidence in general; and

- (d) take appropriate action, including determining the possible effect on the assurance conclusion in the assurance report.
79. If the representations remain inconsistent with other evidence, the assurance practitioner shall reconsider the assessment of the competence, integrity, ethical values, or diligence of the responsible party or of its commitment to an enforcement of these, and shall determine the effect that this may have on the reliability of representations (oral or written) and evidence in general.
80. If the responsible party does not provide such written representations, or refuses to provide it, the assurance practitioner shall qualify or disclaimer the conclusion in the assurance report, based on a limitation on the scope of the engagement. The assurance practitioner may, if appropriate, include a restriction paragraph on the distribution of, or use of, the assurance report.

Forming the Assurance Conclusion

81. The assurance practitioner shall conclude as to whether the assurance practitioner has obtained reasonable or limited assurance, as appropriate, on the financial information. That conclusion shall take into consideration the requirement in paragraph 65 of this ASAE.
82. In forming the conclusion the assurance practitioner shall consider:
- (a) the assurance practitioner's conclusion regarding the sufficiency and appropriateness of evidence obtained; and
 - (b) an evaluation of whether any uncorrected misstatements are material, either individually or in aggregate, to the financial information.

Unmodified Conclusion

83. The assurance practitioner shall express an unmodified conclusion in the assurance report, when the assurance practitioner concludes:
- (a) in a limited assurance engagement whether anything has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the financial information is not presented fairly, in all material respects, in accordance with the stated basis of preparation; or
 - (b) in a reasonable assurance engagement, whether the financial information is presented fairly, in all material respects, in accordance with the stated basis of preparation.

Emphasis of Matter Paragraph

84. The assurance report shall include an Emphasis of Matter paragraph alerting users of the assurance report that the financial information is prepared in accordance with the stated basis of preparation and that, as a result, the assurance report may not be suitable for another purpose.³⁸
85. The assurance practitioner shall include an Emphasis of Matter paragraph in the assurance report when the assurance practitioner concludes it is necessary to draw users' attention to a matter disclosed in the historical financial information or accompanying explanatory notes on

³⁸ The concepts and discussions on the inclusion of an emphasis of matter paragraph relating to a financial report being prepared in accordance with a special purpose framework are contained in ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*. It may be helpful in assisting the assurance practitioner preparing an assurance report for an assurance engagement.

the basis that the matter is of such importance that it is fundamental to users' understanding of the historical financial information.³⁹ (Ref: Para. A64)

Modified Conclusion

86. The assurance practitioner shall, subject to paragraph 87 of this ASAE, express a modified conclusion⁴⁰ in the assurance report if:
- (a) having obtained sufficient appropriate evidence, the assurance practitioner concludes that the effects, or possible effects, of a matter are not so material or pervasive as to require an adverse conclusion or a disclaimer of conclusion, (qualified conclusion);
 - (b) having obtained sufficient appropriate evidence, the assurance practitioner concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial information (adverse conclusion);
 - (c) the assurance practitioner is unable to obtain sufficient appropriate evidence on which to base an assurance conclusion, and concludes that the possible effects on the financial information of undetected misstatements, if any, could be both material and pervasive (disclaimer of conclusion); or (Ref: Para. A65)
 - (d) the responsible party has not made the required disclosures, relating to material uncertainties in respect of going concern,⁴¹ in the document (a qualified or adverse conclusion, as appropriate).
87. The assurance practitioner shall discuss with the responsible party any conclusion that is intended to be modified prior to preparing the assurance report. If the responsible party does not agree to make the necessary changes to appropriately resolve the matter, the assurance practitioner shall include the modified conclusion in the assurance report and consider any other implications for the engagement. (Ref: Para. A66)

Preparing the Assurance Report

88. The assurance practitioner shall provide a written assurance report to the responsible party containing a clear expression of the assurance practitioner's conclusion on each type of financial information that is the subject of the engagement. (Ref: Para. A67, A69)
89. The assurance practitioner's conclusion shall clearly distinguish and separate each type of financial information from any other types of financial information within the assurance report. (Ref: Para. A68)
90. If the assurance practitioner is required by law or regulation to use a specific layout or wording in the assurance report, the assurance practitioner shall evaluate whether the assurance report is acceptable in the circumstances of the engagement, and if not, whether additional explanation in the assurance practitioner's report can mitigate possible misunderstanding. (Ref: Para. A69)

Consent to the Inclusion of the Assurance Report in a Public Document (Ref: Para. A71)

91. The assurance practitioner shall consider applicable law or regulation when the assurance practitioner has been requested to provide consent in writing to the responsible party for the inclusion of the assurance report in the document.
92. Where the assurance practitioner considers it inappropriate for the assurance report to be included in the document, consent shall either not be provided, or be revoked prior to the relevant date of the document's release.

³⁹ The concepts and discussions on the circumstances under which an emphasis of matter is included in an auditor's report are contained in ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*. It may be helpful in assisting the assurance practitioner decide if an Emphasis of Matter paragraph is appropriate for an assurance engagement relating to fundraisings.

⁴⁰ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*, for further guidance.

⁴¹ See ASA 570 for further guidance.

Documentation

93. The assurance practitioner shall prepare documentation on a timely basis.
94. The assurance practitioner shall prepare documentation that is sufficient to enable an experienced assurance practitioner, having no previous connection with the engagement, to understand: (Ref: Para. A72-A73)
- (a) the nature, timing and extent of the assurance procedures performed to comply with this ASAE and applicable legal and regulatory requirements;
 - (b) the results of the procedures performed, and the evidence obtained; and
 - (c) significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.

Quality Control

95. The assurance practitioner shall include in the engagement documentation:
- (a) issues identified with respect to compliance with relevant ethical requirements and how they were resolved;
 - (b) conclusions on compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions;
 - (c) conclusions reached regarding the acceptance and continuance of client relationships and engagements; and
 - (d) the nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

Historical Financial Information

96. This section deals with the application of special consideration in the application of requirements in paragraphs 97 and 98 of this ASAE to the reporting on historical financial information in connection with a corporate fundraising. Paragraphs 97 and 98 of this ASAE deal with additional special considerations when the historical financial information includes pro forma adjustments, resulting in pro forma historical financial information.

Preparing the Assurance Report

97. The assurance practitioner shall not report compliance with this ASAE in the assurance report unless it includes, at a minimum, each of the elements identified in paragraph 98 of this ASAE.

Basic Elements of the Assurance Report

98. The assurance report shall include the following elements:
- (a) a title that clearly indicates the report is an independent limited or reasonable assurance report;
 - (b) an addressee;
 - (c) a background section that identifies the purpose of the assurance report, and if applicable, the fact that it will be included in the document;
 - (d) a scope section that:
 - (i) identifies the entity (entities) whose historical financial information is the subject of the assurance report, and if applicable, the responsible party of the entity;
 - (ii) identifies the source of the historical financial information being reported on, the time period covered; and if applicable, a statement that the assurance report has been prepared for inclusion in the document, and that as a result, the historical financial information may not be suitable for another purpose;
 - (iii) describes the stated basis of preparation selected by the responsible party in the preparation of the historical financial information; and
 - (iv) whether the historical financial information has been previously audited or reviewed and by whom, and the type of conclusion expressed;
 - (e) a description of the assurance practitioner's responsibilities, including:
 - (i) a statement that the engagement was performed in accordance with this ASAE;
 - (ii) if applicable, a summary of the assurance practitioner's procedures. In the case of a limited assurance engagement, this shall include a statement that the procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed; (Ref: Para. A74-A76)
 - (iii) if applicable, a statement that the engagement did not include updating or re-issuing any previous audit or review report on financial information used as a source of the historical financial information;
 - (f) the assurance practitioner's conclusion on the historical financial information:

- (i) in a limited assurance engagement:
 - ◆ if the conclusion is unmodified, that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the historical financial information as described in section [X] of the document is not presented fairly, in all material respects, in accordance with the stated basis of preparation as described in the scope section of this report; or
 - ◆ if the conclusion is modified, a clear description of the reasons for the modification in a Basis for Modification qualification paragraph, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; or
- (ii) in a reasonable assurance engagement:
 - ◆ if the conclusion is unmodified, that the historical financial information is presented fairly, in all material respects, in accordance with the stated basis of preparation, being [insert details]; or
 - ◆ if the conclusion is modified, a clear description of the reasons for the modification in a Basis for Modification qualification paragraph, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; and
- (g) if applicable, an Emphasis of Matter paragraph alerting users of the assurance report that the historical financial information has been prepared in accordance with the stated basis of preparation for inclusion in the document and that as a result, the historical financial information may not be suitable for another purpose;
- (h) where the assurance practitioner has identified material event(s) or transaction(s) outside the entity's ordinary business that in the assurance practitioner's professional judgement require comment, or adjustment to, the historical financial information, but are not adequately addressed in the historical financial information, and/or offering document, the assurance practitioner shall include a section covering such material event(s) or transaction(s) and if applicable, their potential impact to the extent it can be reasonably estimated;
- (i) a declaration of interest, or disclosure of interest, statement;
- (j) the assurance practitioner's signature;
- (k) the date of the assurance practitioner's report that shall be the date the assurance practitioner signs the report; and
- (l) the assurance practitioner's address.

Pro Forma Historical Financial Information

99. This section deals with additional special considerations in the application of requirements in paragraphs 15 to 95 inclusive of this ASAE, when the assurance practitioner is required to provide assurance on pro forma financial information that is historical. When the assurance practitioner is requested to provide assurance on whether the pro forma financial information has been properly compiled, refer to ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*. (Ref: Para. A77-A78)

Engagement Acceptance

Preconditions for Acceptance

100. In addition to the requirements in paragraph 23 of this ASAE, the assurance practitioner shall, prior to agreeing the terms of the engagement, obtain agreement from the responsible party that it accepts its responsibility for:
- (a) selecting the unadjusted historical financial information used as the source for the pro forma historical financial information;
 - (b) selecting and determining the pro forma adjustments;
 - (c) selecting the basis of preparation of the pro forma historical financial information;
 - (d) complying with the requirements of all applicable laws and regulation;⁴² and
 - (e) preparing pro forma historical financial information in accordance with the stated basis of preparation.

Other Factors Affecting Engagement Acceptance

101. In addition to the requirements in paragraph 24 of this ASAE, the assurance practitioner shall only accept the engagement if the level of assurance to be provided on the pro forma historical financial information is not higher than the level of assurance expressed on the source of the unadjusted historical financial information, if it has been previously audited or reviewed. (Ref: Para. A79)

Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and Its Environment

102. In addition to the requirements in paragraphs 35 and 36 of this ASAE, the assurance practitioner shall, at a minimum, obtain:
- (a) an understanding of the source of the unadjusted historical financial information used in the preparation of the pro forma historical financial information including:
 - (i) whether it has been previously audited or reviewed, and
 - (ii) if so, if the audit opinion/review conclusion was modified, considering the implications, if any, for the pro forma historical financial information including: (Ref: Para. A80-A81)
 - ◆ what appropriate action to take; and
 - ◆ whether there is any effect on the assurance practitioner's ability to report in accordance with the terms of the engagement, including any effect on the assurance report; or

⁴² For example, see RG 228 and RG 230, issued by ASIC.

- (iii) planning the additional procedures required if the source of the unadjusted historical financial information has not been previously audited or reviewed; and
- (b) in respect of the pro forma adjustments:
 - (i) identifying all the pro forma adjustments;
 - (ii) understanding the event(s) or transaction(s) that the pro forma adjustments are intending to record; and
 - (iii) understanding the methodology used by the responsible party in formulating the pro forma adjustments, including the basis for, and calculations underlying, them;⁴³
- (c) understanding any recent key changes in the entity's business activities, and how they affect the pro forma historical financial information; and
- (d) considering whether experts⁴⁴ are required to be used for the assurance engagement, for:
 - (i) evaluating the pro forma adjustments, including whether they were prepared in accordance with the stated basis of preparation;
 - (ii) evaluating the suitability of the stated basis of preparation; and/or
 - (iii) assessing the impact of any contractual requirements on the pro forma historical financial information.

Overall Responses to Assessed Risks of Material Misstatement and Further Procedures

Assurance Procedures

103. In addition to the requirements in paragraph 52 of this ASAE, the assurance procedures performed on the pro forma historical financial information shall, at a minimum, include:
- (a) if the source of the unadjusted historical financial information has not been previously audited or reviewed, such procedures as are necessary, in the assurance practitioner's professional judgement, to obtain sufficient appropriate evidence on that financial information which to rely for engagement purposes; (Ref: Para. A82)
 - (b) if the source of the unadjusted historical financial information has been previously audited or reviewed, such procedures as are necessary, in the assurance practitioner's professional judgement, to obtain sufficient appropriate evidence on which to rely for engagement purposes; (Ref: Para. A83)
 - (c) understanding the basis for, and calculations underlying, the pro forma adjustments;
 - (d) determining whether the pro forma adjustments: (Ref: Para. A84-A85)
 - (i) are directly attributable to the event(s) or transaction(s) giving rise to the preparation of the pro forma historical financial information;
 - (ii) have been selected and applied to the unadjusted historical financial information by the responsible party on a basis consistent with the stated basis of preparation;

⁴³ See RG 230 for further guidance.

⁴⁴ The concepts and discussions on placing reliance on the work of another auditor relevant to an audit engagement are contained in ASA 620 which may be useful to assurance practitioners when determining the extent, if any, of such reliance in the conduct of an assurance engagement.

- (iii) are supported by sufficient appropriate evidence, and are arithmetically correct;⁴⁵ and
 - (iv) reflect the actual event(s) or transaction(s) achieved in the actual time period in which they occurred;
 - (e) determining whether the resultant pro forma historical financial information reflects the results of applying the pro forma adjustments to the unadjusted financial information.
104. If the assurance practitioner is not satisfied that the pro forma adjustments:
- (a) have been made in accordance with the stated basis of preparation; and/or
 - (b) lack sufficient appropriate evidence;
- the assurance practitioner shall discuss this with the responsible party, and:
- (c) if the responsible party agrees to make a revision of the pro forma adjustments, the assurance practitioner shall request an updated copy of the document in order to ensure the revision has been made; or
 - (d) if the responsible party refuses to make a required revision to the pro forma adjustments, the assurance practitioner shall consider whether to:
 - (i) obtain legal advice on the appropriate course of action of the assurance practitioner;
 - (ii) withdraw consent for the responsible party to include the assurance report in the document; and/or
 - (iii) withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

Written Representations

105. In addition to the requirements in paragraph 76 of this ASAE, the assurance practitioner shall request the responsible party to include in the written representations an acknowledgement of their responsibility for the matters described in paragraph 100 of this ASAE.

Preparing the Assurance Report

106. The assurance practitioner shall not report compliance with this ASAE in the assurance report unless it includes, at a minimum, each of the elements identified in paragraph 107 of this ASAE.

Basic Elements of the Assurance Report

107. In addition to the requirements in paragraph 98 of this ASAE, the assurance report shall include the following elements:
- (a) statements in the scope section that:
 - (i) identify the pro forma historical financial information being reported on, including the time period it covers;
 - (ii) identify whether there has been an audit or review conducted on the source from which the unadjusted historical financial information was prepared; and

⁴⁵ See RG 170 and RG 228, for further guidance on the nature of pro forma adjustments.

- (iii) describe the stated basis of preparation selected by the responsible party for the pro forma historical financial information; (Ref: Para. A86)
- (b) if applicable, a statement that the firm of which the assurance practitioner is a member holds an Australian Financial Services License under the *Corporations Act 2001*;
- (c) if applicable, a statement that the engagement did not include updating or re-issuing any previous audit or review report on the unadjusted historical financial information used in the preparation of the pro forma historical financial information;
- (d) the assurance practitioner's conclusion on the pro forma historical financial information:
 - (i) in a limited assurance engagement:
 - ◆ with an unmodified conclusion, a statement that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the pro forma historical financial information is not presented fairly, in all material respects, in accordance with the stated basis of preparation being [insert details]; or
 - ◆ with a modified conclusion, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; or
 - (ii) in a reasonable assurance engagement:
 - ◆ with an unmodified conclusion, a statement that the assurance practitioner believes that the pro forma historical financial information is presented fairly, in all material respects, in accordance with the stated basis of preparation being [insert details]; or
 - ◆ with a modified conclusion, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report.

Prospective Financial Information

108. This section deals with additional special considerations in the application of requirements in paragraphs 15 to 95 inclusive of this ASAE, when the assurance practitioner is requested to provide assurance on prospective financial information prepared based on the responsible party's assumptions. Prospective financial information that includes a projection or material hypothetical assumptions is not covered by this ASAE. Paragraphs 122 to 130 inclusive of this ASAE deal with the additional special considerations when the prospective financial information includes pro forma adjustments, resulting in a pro forma forecast.

Engagement Acceptance

Preconditions for Acceptance

109. In addition to the requirements in paragraph 23 of this ASAE, the assurance practitioner shall, prior to agreeing the terms of the engagement, obtain agreement from the responsible party that they:
- (a) understand and accept the type of assurance to be expressed on each of the three different elements of the prospective financial information; and (Ref: Para. A87-A88)
 - (b) acknowledge and understand their responsibility for the preparation of the prospective financial information:
 - (i) in accordance with the stated basis of preparation; and
 - (ii) based on assumptions that:⁴⁶
 - ◆ provide reasonable grounds⁴⁷ for the prospective financial information; and
 - ◆ are not misleading or deceptive, having regard to applicable law and regulation.⁴⁸

Other Factors Affecting Engagement Acceptance

110. In addition to the requirements in paragraph 24 of this ASAE, the assurance practitioner shall accept the engagement only when:
- (a) on the basis of preliminary knowledge of the engagement circumstances, nothing has come to the assurance practitioner's attention to indicate that:
 - (i) the prospective financial information is prepared based on:
 - ◆ assumptions that do not have reasonable grounds; (Ref: Para. A89) and/or
 - ◆ a projection, and/or
 - ◆ material hypothetical assumptions; and
 - (ii) any historical financial information used as a source for the prospective financial information:
 - ◆ has not been previously audited or reviewed, or

⁴⁶ See ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, for further guidance on assessing the reasonableness of assumptions.

⁴⁷ See paragraph 14(z) of this ASAE for the definition. What constitutes "reasonable grounds" for preparation depends on the specific circumstances of the assurance engagement, but ordinarily does not include material hypothetical assumptions. Where the prospective financial information is intended to be included in a public document, see RG 170 for further guidance.

⁴⁸ In relation to public documents, see section 728 or section 769C of the *Corporations Act 2001*, and RG 170.

- ◆ is planned to be reviewed as part of the engagement, and will be included in the document; (Ref: Para. A90)
- (b) the preconditions for the engagement, as stated in paragraph 109 of this ASAE are present; and (Ref: Para. A91)
- (c) the type(s) of assurance required on different elements of the prospective financial information by the responsible party is acceptable to the assurance practitioner.

Understanding the Entity Its Environment and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and its Environment

111. In addition to the requirements in paragraphs 35 and 36 of this ASAE, the assurance practitioner shall, at the minimum, obtain an understanding of:
- (a) whether the prospective financial information is a forecast, a projection, or a combination of a forecast and projection;
 - (b) the stated basis of preparation chosen by the responsible party including:
 - (i) its relevance, completeness, reliability, neutrality, and understandability; and
 - (ii) any differences between its basis and the most recent audited or reviewed historical financial information;
 - (c) the accuracy of any forecast(s) prepared in prior time periods, and the reasons for material variances;
 - (d) whether comparative information is to be included in the document, and whether it will be restated;
 - (e) relevant financial information available in the public domain; and
 - (f) key expectations and relationships in the prospective financial information for use when designing and performing analytical procedures.

Overall Responses to Assessed Risks of Material Misstatement and Further Procedures

Assurance Procedures

Source of the Prospective Financial Information

112. In addition to the requirements in paragraph 52 of this ASAE, the assurance practitioner's procedures to determine whether the responsible party has extracted the source of the prospective financial information from an appropriate source shall, at a minimum, include:
- (a) making relevant enquiries of the responsible party, other experts and relevant parties on the nature of the source of the prospective financial information;
 - (b) if the source of the prospective financial information includes historical financial information which has been previously audited or reviewed:
 - (i) reading the historical financial information to which the audit or review report relates to establish if its basis of preparation and time frame covered are acceptable; and
 - (ii) requesting, and obtaining, a copy of the audit or review report accompanying the unadjusted financial information and, if obtained reading it to assess whether:

- ◆ the audit or review report was modified, and if so, why, and the impact, if any, on the engagement; and
 - ◆ there are any matters that may affect the prospective financial information;
- (iii) if applicable, in a reasonable assurance engagement:
- ◆ contacting the other assurance practitioner to obtain access to the audit working papers supporting the audit or review on the historical financial information and evaluating the extent of reliance, if any, provided by the results of that prior audit or review;
 - ◆ designing and performing further procedures on the historical financial information in order to obtain further evidence of the adequacy, relevance and reliability of the historical financial information to be used as evidence, including:
 - ◇ agreeing or reconciling some or all the historical financial information with supporting records;
 - ◇ re-performing audit tests of material account balances; and
 - ◇ evaluating the adequacy and reliability of the historical financial information as a source of the prospective financial information; and
 - ◆ comparing the source with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim historical financial information, and discussing any significant changes with the responsible party;
- (c) if the source of the prospective financial information includes historical financial information which has not been previously audited or reviewed or is only a forecast, the assurance practitioner shall perform assurance procedures to be satisfied that the source is appropriate, including: (Ref: Para. A92)
- (i) ascertaining whether the assurance practitioner is able to access all required documentation describing, and supporting the source;
 - (ii) enquiring of the responsible party about:
 - ◆ the process by which the source has been prepared and the reliability of its underlying accounting records;
 - ◆ whether all transactions for the time period have been recorded;
 - ◆ identifying the stated basis of preparation of the source;
 - ◆ whether the source has been prepared in accordance with the entity's accounting policies and stated basis of preparation;
 - ◆ whether there have been any changes in accounting policies from that adopted in the most recent audited or reviewed financial statements and, if so, how such changes have been dealt with;
 - ◆ their assessment of the risk that the source may be materially misstated as a result of error or fraud;
 - ◆ how recently the entity's historical financial information was audited or reviewed;

- ◆ whether there has been any changes in the entity's business activities and operations, and if so, their effect on the source; and
 - ◆ the extent to which statistical and mathematical modelling, computer-assisted techniques and other techniques have been used in the preparation of the prospective financial information, and the reliability of those techniques; and
- (iii) if the assurance practitioner has audited or reviewed the immediately preceding annual or interim historical financial information, considering the findings and whether these might indicate any issues with the preparation of the source from which the historical financial information has been extracted; and
- (iv) if applicable, in a reasonable assurance engagement:
- ◆ corroborating the information provided by the responsible party in response to the assurance practitioner's enquiries when the responses appear inconsistent with the assurance practitioner's understanding of the entity, the prospective financial information, or engagement circumstances;
 - ◆ agreeing or reconciling some or all the financial information with supporting records;
 - ◆ re-performing selected audit tests of material account balances within the financial information; and
 - ◆ comparing the source with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party;
- (d) evaluating the adequacy and reliability of the financial information as a source of the prospective financial information;
- (e) evaluating the accuracy of any prospective financial information prepared in prior time periods as compared to actual financial results, and the reasons provided for significant variances; and
- (f) ensuring the source of the prospective financial information reflects any changes made to the stated basis of preparation from the prior audited or reviewed period, and if so:
- (i) determining the nature of, and reasons for, the changes and their effect on the prospective financial information;
 - (ii) evaluating whether there have been any reclassifications or adjustments made by the responsible party to reflect unusual or non-recurring items, or to correct known errors and uncertainties; and
 - (iii) evaluating any differences between the basis of preparation of the prospective financial information and that of other financial information included in the document.
113. If the assurance practitioner is not able to perform the procedures in paragraph 112 of this ASAE in order to assess whether the source of the prospective financial information is appropriate, the assurance practitioner shall consider the implications for the engagement and the assurance report.

Assumptions

114. The assurance practitioner's assurance procedures on the assumptions shall, at a minimum, include:
- (a) reading the most recent audited or reviewed financial report, and, if appropriate, the most recently prepared annual or interim financial information, to enable the assessment of the assumptions used in the preparation of the prospective financial information;
 - (b) enquiry of the responsible party of:
 - (i) the degree of reliability and validity of the assumptions;
 - (ii) the time period they cover;
 - (iii) the methodology used in their development and quantification, including the extent and effect of the responsible party's judgement in the process;
 - (iv) the likelihood of the assumptions actually occurring; (Ref: Para. A93)
 - (v) whether the assumptions are objectively reasonable;
 - (vi) whether the assumptions have a wide range of possibilities, or their outcomes are particularly sensitive to fluctuations, and if so, the effect on the prospective financial information of such sensitivities;
 - (vii) whether any hypothetical assumptions included are immaterial; and
 - (viii) if applicable, in a reasonable assurance engagement, obtaining evidence to support material assumptions;
 - (c) evaluating whether the assumptions are within the entity's capacity to achieve in light of the assurance practitioner's understanding of the prospective financial information;
 - (d) evaluating the extent of reliance by the responsible party on the assumptions used to support the prospective financial information;
 - (e) considering the responsible party's reliance on the work of experts in relation to the prospective financial information, or assumptions underlying it, and if any facts are verifiable; and
 - (f) determining whether the assumptions used in the preparation are consistent with the stated basis of preparation, supported by appropriate evidence, and are arithmetically correct.
115. If the responsible party's assumptions on which the prospective financial information has been prepared lack supporting evidence, and are determined by the assurance practitioner not to have reasonable grounds, the assurance practitioner shall consider such assumptions to be hypothetical and shall determine the implications for the engagement and the assurance report, taking into account any applicable law or regulation.⁴⁹

Prospective Financial Information prepared in accordance with the Stated Basis of Preparation and Assumptions

116. The assurance practitioner's assurance procedures to ascertain if the prospective financial information has been prepared in accordance with the stated basis of preparation and the assumptions shall, at a minimum, include:
- (a) evaluating the chosen stated basis of preparation; (Ref: Para. A94)

⁴⁹ See RG 170, for further guidance.

- (b) assessing whether the stated basis of preparation described in the financial information section of the document is consistent with the assurance practitioner's understanding;
- (c) making clerical checks such as re-computations and reviewing internal consistency of assumptions including those with common variables (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);
- (d) ensuring the prospective financial information reflects any changes made to the stated basis of preparation from the previously audited or reviewed financial report included in the document;
- (e) considering the interrelationships of elements within the prospective financial information;
- (f) agreeing or reconciling the assumptions included to the stated basis of preparation;
- (g) obtaining through enquiry of the responsible party, an understanding of all material assumptions and considering whether any other procedures are necessary in the circumstances; and
- (h) if applicable, in a reasonable assurance engagement:
 - (i) performing consistency checks in the application of the stated basis of preparation to the prospective financial information;
 - (ii) performing test checks of balances within the prospective financial information to ensure they have been prepared in accordance with the assumptions;
 - (iii) obtaining evidence to support an assessment of whether any uncorrected misstatements or adjustments are material, individually or in aggregate, to the prospective financial information;
 - (iv) performing or reviewing the responsible party's sensitivity analysis to test the responsiveness, or otherwise, of the prospective financial information to material changes in key assumptions underlying the information; and
 - (v) examining material assumptions made.

Prospective Financial Information Itself

117. The assurance practitioner's assurance procedures on the prospective financial information itself shall, at a minimum, include:
- (a) evaluating the length of time covered by the prospective financial information, taking into account that information ordinarily becomes more speculative and less verifiable as the length of the period covered increases,⁵⁰ and by:
 - (i) enquiring of the responsible party the reasons for the choice of time period;
 - (ii) considering whether the time period is consistent with the entity's normal reporting period and operating cycle so as to make it comparable to any previously issued historical financial information; and
 - (iii) considering whether any elapsed portion of the current time period is included in the prospective financial information;

⁵⁰ For example, see ASIC's RG 170 for guidance regarding what timeframe ASIC considers is reasonable for the inclusion of prospective financial information.

- (b) assessing the accuracy of any prospective financial information prepared in prior time periods as compared to actual financial results and obtaining and assessing the responsible party's reasons for any significant variances; and
- (c) assessing whether the prospective financial information is prepared on a reasonable basis, based on evidence obtained throughout the engagement.

Written Representations

118. In addition to the requirements in paragraph 76 of this ASAE, the assurance practitioner shall request the responsible party to include in the written representations confirmation:
- (a) of the completeness of all material assumptions used in the preparation of the prospective financial information; and
 - (b) that the material assumptions remain appropriate, even if the underlying information has been accumulated over a period of time.

Forming the Assurance Conclusion

Unmodified Conclusion

119. The assurance practitioner shall express an unmodified conclusion in the assurance report on each element of the prospective financial information when the assurance practitioner concludes:
- (a) with limited assurance, that based on the procedures performed, nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that:
 - (i) the assumptions used in the preparation of the prospective financial information do not provide reasonable grounds for the prospective financial information;
 - (ii) in all material respects, the prospective financial information is prepared in accordance with the stated basis of preparation and on the basis of the assumptions; and
 - (iii) the prospective financial information is itself unreasonable; or
 - (b) with a combination of limited and reasonable assurance on each of the different elements of the prospective financial information, that based on the procedures performed:
 - (i) nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the assumptions used in the preparation of the prospective financial information do not provide reasonable grounds for the prospective financial information;
 - (ii) in all material respects, the prospective financial information is prepared in accordance with the stated basis of preparation and on the basis of the assumptions; and
 - (iii) nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the prospective financial information is itself unreasonable.

Preparing the Assurance Report

120. The assurance practitioner shall not report compliance with this ASAE in the assurance report unless it includes, at a minimum, each of the elements identified in paragraph 121 of this ASAE.

Basic Elements of the Assurance Report

121. The assurance report shall include the following elements:
- (a) a title that clearly indicates the report is an independent assurance report;
 - (b) an addressee;
 - (c) a background section that identifies the purpose of the assurance report, and if applicable, the fact that it will be included in the document;
 - (d) statements in the scope section that:
 - (i) identify the entity (entities) whose prospective financial information is the subject of the assurance report and if applicable, the responsible party;
 - (ii) identify the source of the prospective financial information being reported on, the time period covered; and if applicable, a statement that the assurance report has been prepared for inclusion in the document, and that as a result, the prospective financial information may not be suitable for another purpose;
 - (iii) describe the stated basis of preparation selected by the responsible party in the preparation of the prospective financial information; and
 - (iv) if applicable, states that the firm which the assurance practitioner is a member of holds an Australian Financial Services License under the *Corporations Act 2001*;
 - (e) a description of the assurance practitioner's responsibilities, including:
 - (i) a statement that the engagement was performed in accordance with this ASAE;
 - (ii) if applicable, a summary of the assurance practitioner's procedures. In a limited assurance engagement, this shall include a statement "that the procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed"; (Ref: Para. A95-A97)
 - (iii) if applicable, a statement that the engagement did not include updating or re-issuing any previous audit or review report on the financial information used as the source of the prospective financial information;
 - (f) statements that:
 - (i) actual results are likely to be different from the prospective financial information since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation could be material;
 - (ii) disclaim the assurance practitioner's responsibility for the achievability of the results indicated by the prospective financial information; and
 - (iii) if applicable, clearly identify any hypothetical assumptions⁵¹ in the prospective financial information and confirmation that they have no significant impact upon the projected outcome;
 - (g) the assurance practitioner's assurance conclusion on the different elements of the prospective financial information:

⁵¹ See RG 170.

- (i) with limited assurance and an unmodified conclusion, that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe:
 - ◆ that the assumptions do not provide reasonable grounds for the prospective financial information;
 - ◆ in all material respects, that the prospective financial information is not properly prepared on the basis of the assumptions as described in section [X] of the document, and is not presented fairly in accordance with the stated basis of preparation being [insert details]; and
 - ◆ the prospective financial information itself is unreasonable; or
- (ii) with limited assurance and a modified conclusion, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; or
- (iii) with both reasonable and limited assurance on the different elements of the prospective financial information:
 - ◆ limited assurance that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the assumptions do not provide reasonable grounds for the prospective financial information;
 - ◆ reasonable assurance that in all material respects, the prospective financial information is prepared on the basis of the assumptions as described in section [X] of the document; and is presented fairly in accordance with the stated basis of preparation being [insert details]; and
 - ◆ limited assurance that that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe the prospective financial information itself is unreasonable; or
- (iv) with both reasonable and limited assurance on each of the different elements of the prospective financial information, and part of the conclusion is modified, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report;
- (h) if applicable, an Emphasis of Matter paragraph alerting users of the assurance report that the prospective financial information has been prepared in accordance with the stated basis of preparation for inclusion in the document and that as a result, the prospective financial information may not be suitable for another purpose;
- (i) where the assurance practitioner has identified material event(s) or transaction(s) outside the entity's ordinary business that in the assurance practitioner's professional judgement require comment, or adjustment to, the prospective financial information, but are not adequately addressed in the professional financial information and/or offering document, the assurance practitioner shall include a section covering such material event(s) or transaction(s) and if applicable, their potential impact to the extent it can be reasonably estimated;
- (j) a declaration of interest, or disclosure of interest, statement;
- (k) the assurance practitioner's signature;
- (l) the date of the assurance practitioner's report that shall be the date the assurance practitioner signs the report; and

- (m) the assurance practitioner's address.

Draft

Pro Forma Forecast

122. This section deals with the additional special considerations in the application of requirements in paragraphs 15 to 95 inclusive of this ASAE, when the assurance practitioner is requested to provide assurance on a pro forma forecast.

Engagement Acceptance

Preconditions for Acceptance

123. In addition to the requirements in paragraph 109 of this ASAE, the assurance practitioner shall obtain agreement from the responsible party that they acknowledge and understand their responsibility for:

- (a) selecting the unadjusted financial information used as the source of the pro forma forecast;
- (b) selecting and determining the pro forma adjustments;
- (c) selecting the basis of preparation of the pro forma forecast;
- (d) complying with the requirements of all applicable laws and regulation;⁵² and
- (e) preparing the pro forma forecast in accordance with the stated basis of preparation.

Other Factors Affecting Engagement Acceptance

124. In addition to the requirements in paragraph 110 of this ASAE, the assurance practitioner shall only accept the engagement if the level of assurance to be provided on the pro forma forecast is not higher than the level of assurance expressed on the source of the unadjusted financial information, in circumstances where it has been previously audited or reviewed. (Ref: Para. A98)

Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and Its Environment

125. In addition to the requirements in paragraphs 35 and 36 of this ASAE, the assurance practitioner shall, at a minimum, obtain:

- (a) an understanding of the source of the unadjusted financial information used in the preparation of the pro forma forecast including:
 - (i) whether it has been previously audited or reviewed; and
 - (ii) if so, if the audit opinion/review conclusion was modified, considering the implications, if any for the pro forma forecast; including:
 - ◆ what appropriate action to take; (Ref: Para. A99-A100) and
 - ◆ Whether there is any effect on the assurance practitioner's ability to report in accordance with the terms of the engagement, including any effect on the assurance report; or
 - (iii) planning the additional procedures required if the source of the unadjusted financial information has not been previously audited or reviewed; and
- (b) in respect of the pro forma adjustments:
 - (i) identifying all the pro forma adjustments;

⁵² For example, see RG 228 and RG 230, issued by ASIC.

- (ii) understanding the event(s) or transaction(s) that the pro forma adjustments are intending to record; and
- (iii) understanding the methodology used by the responsible party in formulating the pro forma adjustments, including the basis for, and calculations underlying them;⁵³ and
- (c) understanding any recent key changes in the entity's business activities, and how they affect the pro forma forecast;
- (d) identifying the pro forma adjustments that have been made and the event(s) or transaction(s) the effects of which they intend to record; and
- (e) considering whether experts⁵⁴ is required to be used for the assurance engagement for:
 - (i) evaluating pro forma adjustments, including whether they were prepared in accordance with the stated basis of preparation;
 - (ii) evaluating the suitability of the stated basis of preparation; and
 - (iii) assessing the impact of any contractual requirements on the pro forma forecast.

Overall Responses to Assessed Risks of Material Misstatement and Further Procedures

Assurance Procedures

126. In addition to the requirements in paragraphs 112 to 117 inclusive of this ASAE, the assurance procedures performed on the pro forma forecast shall, at a minimum, include:
- (a) if the source of the unadjusted historical financial information has not been previously audited or reviewed, such procedures as are necessary, in the assurance practitioner's professional judgement, to obtain sufficient appropriate evidence on that financial information which to rely for engagement purposes; (Ref: Para. A101)
 - (b) if the source of the unadjusted historical financial information has been previously audited or reviewed, such procedures as are necessary, in the assurance practitioner's professional judgement, to obtain sufficient appropriate evidence on which to rely for engagement purposes; (Ref: Para. A102)
 - (c) understanding the basis for, and calculations underlying, the pro forma adjustments;
 - (d) determining whether the pro forma adjustments: (Ref: Para. A103-A104)
 - (i) are directly attributable to the event(s) or transaction(s) requiring the preparation of the pro forma forecast;
 - (ii) have been selected and applied by the responsible party on a basis consistent with the stated basis of preparation;
 - (iii) are supported by sufficient appropriate evidence, and are arithmetically correct;⁵⁵ and
 - (iv) reflect the planned event(s) or transaction(s) in the time period in which they are expected to occur; and

⁵³ See RG 230 for further guidance.

⁵⁴ The concepts and discussions on placing reliance on the work of another auditor relevant to an audit engagement are contained in ASA 620 which may be useful to assurance practitioners when determining the extent, if any, of such reliance in the conduct of an assurance engagement.

⁵⁵ See RG 170 and RG 228 for further guidance on the nature of pro forma adjustments.

- (e) determining whether the resultant pro forma forecast reflects the results of applying the pro forma adjustments to the unadjusted financial information.

127. If the assurance practitioner is not satisfied that the pro forma adjustments:

- (a) have been made in accordance with the stated basis of preparation, and/or
- (b) lack sufficient appropriate evidence;

the assurance practitioner shall discuss this with the responsible party, and:

- (c) if the responsible party agrees to make a revision of the pro forma adjustments, the assurance practitioner shall request an update copy of the document in order to ensure the revision has been made; or
- (d) if the responsible party refuses to make the required revision to the pro forma adjustments, the assurance practitioner shall consider whether to:
 - (i) obtain legal advice on the appropriate course of action of the assurance practitioner;
 - (ii) withdraw consent for the responsible party to include the assurance report in the document; and/or
 - (iii) withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

Written Representations

128. In addition to the requirements in paragraph 118 of this ASAE, the assurance practitioner shall request the responsible party to include in the written representations an acknowledgement of their responsibilities for the matters described in paragraph 123 of this ASAE.

Preparing the Assurance Report

129. The assurance practitioner shall not report compliance with this ASAE in the assurance report unless it includes, at a minimum, each of the elements identified in paragraph 130 of this ASAE.

Basic Elements of the Assurance Report

130. In addition to the requirements in paragraph 121 of this ASAE, the assurance report shall include the following elements:

- (a) statements in the scope section that:
 - (i) identify the pro forma forecast being reported on, including the time period covered, and if applicable, a statement that the assurance report has been prepared for inclusion in the document, and that as a result, the pro forma forecast may not be suitable for another purposes;
 - (ii) if applicable, identify whether there has been an audit or review conducted on the source of the unadjusted financial information was prepared;
 - (iii) describes the stated basis of preparation selected by the responsible party for the pro forma forecast; (Ref: Para. A105)
- (b) the assurance practitioner's assurance conclusion on the different elements of the pro forma forecast:

- (i) with limited assurance and an unmodified conclusion, that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe:
 - ◆ that the assumptions do not provide reasonable grounds for the pro forma forecast;
 - ◆ in all material respects, that the pro forma forecast is not properly prepared on the basis of the assumptions as described in section [X] of the document; and is not presented fairly in accordance with the stated basis of preparation being [insert details]; and
 - ◆ the pro forma forecast itself is unreasonable; or
- (ii) with limited assurance and a modified conclusion, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; or
- (iii) with both reasonable and limited assurance on different elements of the pro forma forecast:
 - ◆ limited assurance that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe the assumptions do not provide reasonable grounds for the pro forma forecast;
 - ◆ reasonable assurance that in all material respects, the pro forma forecast is prepared on the basis of the assumptions as described in section [X] of the document; and is presented fairly in accordance with the stated basis of preparation being [insert details], and
 - ◆ limited assurance that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe the pro forma forecast itself is unreasonable; or
- (iv) with both reasonable and limited assurance on the different elements of the pro forma forecast, and part of the conclusion is modified, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report.

* * *

Application and Other Explanatory Material

Scope of this Standard on Assurance Engagements (Ref: Para. 4)

- A1. The assurance practitioner may agree to provide non-assurance services in accordance with the agreed terms of an engagement⁵⁶ or may be a member of a firm that is to provide such non-assurance services. Non-assurance services are not within the scope of this ASAE. The assurance practitioner should consider relevant ethical requirements (including independence), and the requirements of applicable law, regulation and professional standards⁵⁷ when considering whether they are able to agree to provide such non-assurance services. If non-assurance services are able to be provided, they may be included in a separate engagement letter from the assurance services, or combined into a single engagement letter.
- A2. Examples of non-assurance services include:
- (a) the preparation and issuance of a Materiality Advice Letter or similar document to an entity's due diligence committee related to the fundraising;
 - (b) participation in the entity's due diligence committee;⁵⁸
 - (c) the preparation of taxation information which is to be disclosed in the document and is unrelated to the financial information that is the subject of the assurance engagement;
 - (d) 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 the document; or earnings per share calculations);⁵⁹
 - (e) comfort letter engagements performed by an assurance practitioner who is also the appointed auditor of the entity;⁶⁰ and
 - (f) accounting services in respect of financial information that is not the subject of the assurance engagement.

Types of Assurance provided in the Engagement (Ref: Para. 8)

- A3. Factors to consider include:
- (a) the nature and extent of documentation that is known to be available to support the financial information;
 - (b) the nature, purpose and intended users of the financial information; and
 - (c) the engagement circumstances.

Complying with Standards that are Relevant to the Engagement (Ref: Para. 15)

- A4. ASAE 3000 and ASRE 2405 include requirements that apply to applicable assurance engagements. In some cases, this ASAE may include additional requirements or application and other explanatory material in relation to those topics.

⁵⁶ See *Framework for Assurance Engagements* for further guidance on the elements of an assurance engagement (paragraph 20) and consulting engagements (paragraphs 12-Aus 16.1).

⁵⁷ See for example APES 110 *Code of Ethics for Professional Accountants* (Reissued December 2010, as amended) issued by the Accounting Professional and Ethical Standards Board for the assurance practitioners professional responsibilities in these circumstances.

⁵⁸ See APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* (March 2011, as amended), issued by the Accounting Professional and Ethical Standards Board for assurance practitioner's professional responsibilities in these circumstances.

⁵⁹ See ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

⁶⁰ See ASRS 4450 *Comfort Letter Engagements*.

Inability to Comply with the Requirements of this ASAE or Other AUASB Standards

(Ref: Para. 22)

- A5. Implications for the engagement may include:
- (a) whether to continue to perform the engagement;
 - (b) issuing a modified conclusion in the assurance report;
 - (c) refusing to issue the assurance report; or
 - (d) withdrawing from the engagement, where it is possible under any application law or regulation.

The assurance practitioner should discuss the above implications with the responsible party.

Assurance Engagement Acceptance

Preconditions for Acceptance (Ref: Para. 23)

- A6. The responsible party is ultimately responsible for the preparation and presentation of all information in the document. The responsible party may engage other experts (for example, tax advisors, business advisors, or legal counsel) who may prepare, assist with the preparation of, or provide independent advice on, the information included in the document, however the responsible party retains responsibility for such information. The only exception to this is in respect of the content of reports prepared by other parties/experts, which are included, by consent, in the document.
- A7. If the responsible party is not also the engaging party, the assurance practitioner ordinarily considers the effect this may have on their ability to access records, documentation and other information that may be needed by the assurance practitioner to complete the engagement.

Agreeing on the Terms of the Assurance Engagement

- A8. If the responsible party does not agree to sign the engagement letter, the assurance practitioner needs to consider whether it is appropriate to accept the engagement. Such considerations should take into account that applicable law, regulation, or a pre-existing contract may already acknowledge the terms included in the engagement letter, or set out the responsible party's responsibility in sufficient detail, such that the engagement letter is not required. For example, under the *Corporations Act 2001*,⁶¹ the directors of an entity are deemed responsible for the financial information included in a public document used in offering securities. In such circumstances, the assurance practitioner may, using professional judgement, agree to accept the engagement, without requiring the engagement letter be signed. (Ref: Para. 26)
- A9. Other such terms and conditions that may be included in the agreed terms may include:
(Ref: Para. 26(d))
- (a) a description of assurance procedures to be performed, for example:
 - (i) analytical review procedures;
 - (ii) review and consideration of key working papers, accounting records and other documents prepared by the responsible party and other experts;
 - (iii) enquiry of, and discussion with, the responsible party and other experts related to the source and stated basis of preparation used for the historical financial information;
 - (iv) the examination of, on a test basis, evidence supporting the financial information; and

⁶¹ See Section 717 of the *Corporations Act 2001*, for an overview of the procedures for offering securities.

- (v) consistency checks in the stated basis of preparation compared to the accounting policies disclosed in the most recent historical financial information also disclosed in the document;
- (b) important deadlines/timelines for the completion of the engagement. This may include deadlines such as the expected date of publication of the document and when the assurance practitioner's consent is required;
- (c) arrangements regarding the planning and performance of the engagement, including the composition of the engagement team (including any experts); and
- (d) arrangements for the assurance practitioner to:
 - (i) attend meetings such as the due diligence committee meetings (if applicable under the terms of the engagement);⁶²
 - (ii) receive draft and final versions of the document in a timely manner, when requested;
 - (iii) use the service(s) of the responsible party's experts and/or the assurance practitioner's experts;
 - (iv) communicate directly with the entity's external auditor and/or other professional advisers regarding matters relevant to the financial information; and
 - (v) provide consent to the inclusion of the assurance practitioner's assurance report in the document. If the document is a prospectus, prepared in accordance with the *Corporations Act 2001*,⁶³ the form of the consent must be consistent with how the prospectus is intended to be distributed. For example, entities intending to distribute the prospectus in both electronic and paper forms must also obtain the assurance practitioner's consent to the inclusion of the assurance report in both forms.⁶⁴

A10. Appendix 1 provides an illustrative example engagement letter for an engagement.
(Ref: Para. 26)

Changes in the Terms of the Engagement

A11. Examples of when requests from the responsible party to change the terms of the engagement may be received include where there has been a change in circumstances affecting the need for the service or a misunderstanding of the nature of the assurance services to be provided. The assurance practitioner considers the justification for the proposed change on the conduct and reporting of the engagement, as well as any evidence that was obtained prior to the assurance practitioner agreeing to the change. Changes that may be unacceptable to the assurance practitioner include: (Ref: Para. 27)

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

⁶² See for example, APES 350, for further guidance.

⁶³ See Section 716 of the *Corporations Act 2001*.

⁶⁴ See ASIC RG 107 *Electronic Prospectuses*.

- A12. It is important that all changes agreed to by the responsible party and the assurance practitioner be documented in writing to ensure no misunderstanding occurs between the parties of what has been agreed. (Ref: Para. 28)

Planning the Engagement

- A13. The assurance practitioner uses professional judgement to determine the extent of understanding that is necessary to obtain of the financial information and other relevant engagement circumstances.⁶⁵ (Ref: Para. 30)

Planning Activities

- A14. The type of planning activities the assurance practitioner performs depends on the level of understanding of the entity the assurance practitioner has. Such an understanding may have been obtained from prior audit or review engagements performed. This understanding would ordinarily include knowledge of the entity's management skills and resources, and information technology systems (including financial systems). This understanding would need to be updated to ensure it had not changed in the current time period. Note that in certain engagement circumstances, the assurance practitioner may not be able to obtain such an understanding. For example, in a takeover or merger fundraising transaction, the assurance practitioner may not be able to access an entity's financial information, other than that available in the public domain. Hence, the level of understanding will be necessarily more limited, as will the nature of the assurance conclusion. The entity's document is also unlikely to be finalised at the time of engagement planning, so the assurance practitioner's opportunity to gain an understanding of the other information in the document at this stage is ordinarily limited. (Ref: Para. 31)
- A15. The assurance practitioner may decide to discuss elements of planning with the responsible party when determining the scope of the engagement or to facilitate the conduct and management of the engagement (for example, to co-ordinate some of the planned procedures with the work of the entity's personnel). Although these discussions often occur, the overall engagement strategy and the engagement plan remain the assurance practitioner's responsibility. When discussing matters included in the overall engagement plan, care is needed in order to not compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the entity may compromise the effectiveness of the engagement by making the procedures too predictable. (Ref: Para. 31)
- A16. Assurance engagement risk comprises inherent risk, control risk and detection risk and the assurance practitioner considers these risk components in terms of the assurance engagement circumstances; in particular the nature of the financial information and whether a reasonable or limited assurance conclusion is sought. These considerations are then reflected in the extent of the planned procedures to be performed and the evidence-gathering process. (Ref: Para. 31(g))

Materiality in Planning and Performing the Engagement

Determining Materiality when Planning the Engagement (Ref: Para. 32-33)

- A17. The concept of materiality ordinarily includes the principles that:
- (a) misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the financial information;
 - (b) judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
 - (c) judgements about matters that are material to intended users of the financial information are based on a consideration of the common information needs of

⁶⁵ The concepts and discussions on complete set of financial statements relevant to an audit engagement are contained in ASA 200, paragraph Aus 13.1, and may be helpful in determining the components of a complete set of financial statements applicable to an assurance engagement.

intended users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

- A18. The assurance practitioner's determination of materiality⁶⁶ is a matter of professional judgement, and is affected by:
- (a) the assurance practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the assurance practitioner to assume that intended users:
 - (i) understand that the financial information is prepared and assured to levels of materiality, and have an understanding of any materiality concepts included in the stated basis of preparation;
 - (ii) understand that the quantification of any prospective financial information involves uncertainties; and
 - (iii) make reasonable decisions on the basis of the information in the financial information;
 - (b) whether the stated basis of preparation includes references to materiality. This provides a frame of reference to the assurance practitioner in determining materiality for the engagement. If the stated basis of preparation does not include a discussion of the concept of materiality, the characteristics referred to above provide the assurance practitioner with such a frame of reference;
 - (c) the engagement circumstances; and
 - (d) both quantitative and qualitative factors.

It should be noted, however, that decisions regarding materiality are not affected by the level of assurance, that is, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement.

Revision as the Engagement Progresses (Ref: Para. 34)

- A19. Materiality may need to be revised as a result of a change in circumstances during the engagement (for example, the disposal of a major part of the entity's business), new information, or a change in the assurance practitioner's understanding of the entity and its operations as a result of performing procedures. For example, it may become apparent during the engagement that accounting estimates used are likely to be substantially different from those included in the financial information used initially to determine materiality. If, during the engagement, the assurance practitioner concludes that a lower materiality for the financial information (and, if applicable, materiality level or levels for particular types of accounts or disclosures within it) is appropriate than that initially determined, it may be necessary to revise performance materiality, and consequently the nature, timing and extent of the further planned procedures.

Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and Its Environment

- A20. The assurance practitioner uses professional judgement to determine the extent of the understanding required and of the nature, timing and extent of procedures to identify and assess risks of material misstatement appropriate to the level of assurance required. The assurance practitioner's primary consideration is whether the understanding that has been obtained and the identification and assessment of risks are sufficient to meet the objective stated in this ASAE. The depth of the understanding that is required by the assurance

⁶⁶ Refer ASA 320 *Materiality in Planning and Performing an Audit*, for helpful guidance on the concept of materiality.

practitioner is less than that possessed by management in managing the entity, and both the depth of the understanding and the nature, timing and extent of procedures to identify and assess risks of material misstatement are less for a limited assurance engagement than for a reasonable assurance engagement. (Ref: Para. 35)

- A21. Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments. Examples of matters the assurance practitioner may consider include: (Ref: Para. 35(b))
- (a) The market and competition, including demand, capacity, and price competition.
 - (b) Common business practices within the industry.
 - (c) Cyclical or seasonal activity.
 - (d) Product technology relating to the entity's products.
- A22. Relevant legal and regulatory factors include the legal and regulatory environment. This encompasses, among other matters, the applicable financial reporting framework in accordance with which the entity or, if applicable, the acquiree prepares its periodic financial information, and the legal and political environment. Examples of matters the assurance practitioner may consider include: (Ref: Para. 35(b))
- (a) Industry-specific accounting practices.
 - (b) Legal and regulatory framework for a regulated industry.
 - (c) Legislation and regulation that significantly affect the entity's or, if applicable, the acquiree's or divestee's operations, including direct supervisory activities.
 - (d) Taxation.
 - (e) Government policies currently affecting the conduct of the entity's or, if applicable, the acquiree's or divestee's business, such as monetary policies (including foreign exchange controls), fiscal policies, financial incentives (for example, government aid programs), and tariffs or trade restrictions policies.
 - (f) Environmental requirements affecting the entity's or acquiree's or divestee's industry and business.
- A23. Examples of other external factors affecting the entity and, if applicable, the acquiree or divestee that the assurance practitioner may consider include the general economic conditions, interest rates and availability of financing, and inflation or currency revaluation. (Ref: Para. 35(b))
- A24. The assurance practitioner ordinarily has no responsibility to perform an assessment of the appropriateness, or otherwise, of the chosen stated basis of preparation. The stated basis of preparation chosen by the responsible party is ordinarily represented by the recognition and measurement accounting principles contained in Australian Accounting Standards and the accounting policies adopted by the entity. The stated basis of preparation described in the document should include the extent to which the entity has been consistent with that basis selected by the responsible party. (Ref: Para. 35(c))

Other Procedures to Obtain an Understanding and to Identify and Assess Risks of Material Misstatement

- A25. Obtaining an understanding, and identifying and assessing risks of material misstatement, is an iterative process. Procedures to obtain an understanding of the entity and its environment and to identify and assess risks of material misstatement by themselves do not provide sufficient appropriate evidence on which to base the assurance conclusion. (Ref: Para. 38)

Procedures to Obtain an Understanding and to Identify and Assess Risks of Material Misstatement

Analytical Procedures (Ref: Para. 41(b))

- A26. Analytical procedures performed to obtain an understanding of the entity and its environment and to identify and assess risks of material misstatement may identify aspects of the entity of which the assurance practitioner was unaware of and may assist in assessing the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks.
- A27. Analytical procedures may help identify the existence of unusual events, and amounts, ratios, and trends that might indicate matters that have implications for the engagement. Unusual or unexpected relationships that are identified may assist the assurance practitioner in identifying risks of material misstatement.
- A28. However, when such analytical procedures use data aggregated at a high level (which may be the situation with analytical procedures performed to obtain an understanding of the entity and its environment and to identify and assess risks of material misstatement), the results of those analytical procedures only provide a broad initial indication about whether a material misstatement may exist. Accordingly, in such cases, consideration of other evidence that has been gathered when identifying the risks of material misstatement together with the results of such analytical procedures may assist the assurance practitioner in understanding and evaluating the results of the analytical procedures.

Observation and Inspection (Ref: Para. 41(c))

- A29. Observation consists of looking at a process or procedure being performed by others, for example, the assurance practitioner's observation of monitoring devices being calibrated by the entity's personnel, or of the performance of control activities. Observation provides evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed.
- A30. Inspection involves examining records, documents or reports, whether internal or external, in paper form, electronic form, or other media. Inspection of records, documents and reports provides evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production.
- A31. Observation and inspection may support enquiries of management and others, and may also provide information about the entity and its environment. Examples of such procedures include observation or inspection of the following:
- (a) The entity's operations.
 - (b) Relevant documents supporting the financial information.
 - (c) Reports prepared for management or those charged with governance.
 - (d) If the entity is relying on the fundraising to ensure its going concern in future periods, the assurance practitioner may request a signed underwriting agreement to use as a potential mitigating factor in the going concern assessment process.

Identifying and Assessing Risks of Material Misstatement

The Use of Assertions (Ref: Para. 42)

- A32. Assertions are ordinarily used by the assurance practitioner in a reasonable assurance engagement, and may be used in a limited assurance engagement, to consider the different types of potential misstatements that may occur.⁶⁷
- A33. In representing that the financial information is in accordance with the stated basis of preparation, the responsible party implicitly or explicitly makes assertions regarding the quantification and presentation and disclosure of the financial information. Assertions made by the responsible party fall into the following categories and may take the following forms:
- (a) Assertions about the quantification of the financial information for the period subject to assurance:
 - (i) Occurrence—events or transactions have been recorded have occurred and pertain to the entity.
 - (ii) Completeness—all events or transactions that should have been recorded (in accordance with the stated basis of preparation) have been recorded.
 - (iii) Accuracy—the amounts and other data related to the recorded event(s) or transaction(s) has (have) been recorded appropriately.
 - (iv) Cut-off—event(s) and transaction(s) has (have) been recorded in the correct reporting period.
 - (v) Classification—financial information classes (for example, assets, liabilities) have been recorded as the proper type.
 - (b) Assertions about presentation and disclosure of the financial information in the document:
 - (i) Occurrence and rights and obligations—disclosed financial information and other matters have occurred and pertain to the entity.
 - (ii) Completeness—all disclosures that should have been included in the financial information have been included.
 - (iii) Classification and understandability—financial information is appropriately presented and described, and disclosures are clearly expressed.
 - (iv) Accuracy and valuation—all event(s) or transaction(s) included in the financial information are in accordance with the stated basis of preparation are disclosed fairly and at appropriate amounts.
 - (v) Consistency—accounting policies are consistent with those applied in the prior period, or changes made are justified and have been properly applied and adequately disclosed; and comparative information, if any, is as reported in the prior period or has been appropriately restated.

Notwithstanding the presentation and disclosure assertions made by the responsible party, the assurance practitioner only designs assurance procedures related to the quantification of the financial information, as this ASAE does not require the assurance practitioner to provide assurance on the presentation and disclosure of the financial information in the document.

⁶⁷ See ASA 315, paragraphs A110-A112, for helpful guidance on the use of the assertions.

Reliance on the work performed by others

- A34. The other assurance practitioner may not permit reliance on a previously issued audit or review report, due to the fact that the report was prepared and issued for a purpose other than the subject of the current engagement. In the absence of the assurance practitioner being able to place reliance, additional procedures may be performed with respect to the financial information, in order to obtain sufficient and appropriate evidence necessary for the engagement, including:⁶⁸
- (a) Requesting to review the other assurance practitioner's working paper file supporting the issued audit or review report, and read it, in order to ascertain the appropriateness of the audit approach taken. (Ref: Para. 44-47)
 - (b) Re-performing some of all audit procedures with respect to the financial information, including enquiry, observation, analytical procedures, and tests of details.
 - (c) Performing audit test checks of certain balances within the financial information.

Causes of Risks of Material Misstatement

- A35. Matters that the assurance practitioner may consider in obtaining an understanding of how the entity makes significant accounting estimates included in the financial information, and the data on which they are based include, for example: (Ref: Para. 48(d))
- (a) an understanding of the data on which the accounting estimates are based including its source, reliability, and whether it has been previously audited or reviewed;
 - (b) the method, including if applicable the model, used in making accounting estimates;
 - (c) relevant aspects of the control environment and information system;
 - (d) whether the responsible party has used an expert;
 - (e) the assumptions underlying accounting estimates;
 - (f) whether there has been or ought to have been a change from the prior period in the methods for making accounting estimates and, if so, why; and
 - (g) whether and, if so, how the entity's responsible party has assessed the effect of estimation uncertainty on the financial information, including:
 - (i) whether and, if so, how the entity has considered alternative assumptions or outcomes by, for example, performing a sensitivity analysis to determine the effect of changes in the assumptions on an estimate;
 - (ii) scenarios; and
 - (iii) whether the entity monitors the outcome of accounting estimates made in the prior period, and whether it has appropriately responded to the outcome of that monitoring procedure.

⁶⁸ 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.

Overall Responses to Assessed Risks of Material Misstatement and Further Procedures

Assurance Procedures (Ref: Para. 49)

- A36. When designing and performing assurance procedures, the assurance practitioner considers the adequacy, relevance and reliability of the information obtained to be used as evidence.⁶⁹
- A37. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the assurance practitioner will perform in a limited assurance engagement will vary in nature from, and are less in extent than for, a reasonable assurance engagement. The primary differences between the assurance practitioner's overall responses to address the assessed risks of material misstatement in the financial information and the further procedures performed in a reasonable assurance engagement as compared to a limited assurance engagement are as follows:
- (a) *The emphasis placed on the nature of various procedures:* The emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances.
 - (b) *The extent of further procedures:* The extent of further procedures performed in a limited assurance engagement is less than in a reasonable assurance engagement. This may involve:
 - (i) reducing the number of items to be examined, for example, reducing sample sizes for tests of details; or
 - (ii) performing fewer procedures (for example, performing only analytical procedures in circumstances when, in a reasonable assurance engagement, both analytical procedures and tests of detail would be performed).
 - (c) *The nature of analytical procedures:* In a reasonable assurance engagement, analytical procedures performed in response to assessed risks of material misstatement involve developing expectations of quantities or ratios related to the financial information that are sufficiently precise to identify material misstatements. In a limited assurance engagement, on the other hand, analytical procedures are often designed to support expectations regarding the direction of trends, relationships and ratios, rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement. Further, when significant fluctuations, relationships or differences are identified, appropriate evidence in a limited assurance engagement may often be obtained by making enquiries of the entity and considering responses received in the light of known engagement circumstances, without obtaining additional evidence as is required by paragraph 53 in the case of a reasonable assurance engagement.

In addition, when undertaking analytical procedures in a limited assurance engagement the assurance practitioner may, for example:

- (i) Use data that is more highly aggregated.
- (ii) Use data that has not been subjected to separate procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement.

Overall Responses to Assessed Risks of Material Misstatement (Ref: Para. 50(a))

- A38. Overall responses to address the assessed risks of material misstatement in the financial information level may include:
- (a) emphasising to the assurance team the need to maintain professional scepticism;

⁶⁹ The concepts and discussions on obtaining evidence relevant to an audit engagement are contained in ASA 500, which may be useful to assurance practitioners when determining the extent, if any, of evidence required in the conduct of an assurance engagement.

- (b) assigning more experienced staff or those with special skills or using experts;
- (c) providing more supervision of engagement staff;
- (d) incorporating additional elements of unpredictability in the selection of further procedures to be performed; and
- (e) making general changes to the nature, timing, or extent of procedures, and modifying the nature of procedures to obtain more persuasive evidence.

A39. The nature, timing, and extent of assurance procedures to be carried out are influenced by various factors, including, but not limited to:

- (a) the assurance practitioner's assessment of risk and its impact on the sufficiency and appropriateness of evidence;
- (b) the stated basis of preparation chosen by the responsible party;
- (c) whether some of the financial information has already been audited or reviewed, and if so whether the audit or review was conducted in accordance with Australian Auditing Standards; and what type of audit opinion or review conclusion was expressed in the auditor's report;
- (d) whether the financial information included in the document is prepared on the same basis as that of the prior period audited or reviewed historical financial information, and if not, the reasons for the differences;
- (e) whether the source and time period covered by the financial information are appropriate, and consistent with the stated basis of preparation; and
- (f) whether there is a need to make corrections in the financial information previously considered immaterial in the prior period audit or review of the financial report.

Persuasiveness of Evidence (Ref: Para. 50(b))

A40. To obtain more persuasive evidence because of a higher assessment of risk of material misstatement, the assurance practitioner may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by obtaining corroborating evidence from a number of independent sources.

Confirmation Procedures (Ref: Para. 50(c)(ii))

A41. External confirmation procedures may provide relevant evidence about such information as terms of agreements, contracts, or transactions between the entity and other parties, related to the financial information that is the subject of the engagement.

Analytical Procedures Performed in Response to Assessed Risks of Material Misstatement.
(Ref: Para. 52(d))

A42. Analytical procedures may be particularly effective when disaggregated data is readily available, or when the assurance practitioner has reason to consider the data to be used is reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system, or may be entered in another information system in parallel with the entry of related financial data and some common input controls applied.

A43. In some cases, it may be appropriate for the assurance practitioner to evaluate how the responsible party has considered alternative assumptions or outcomes in determining the accounting estimates, and why it has rejected them. (Ref Para. 52(f))

A44. In some limited assurance engagements, it may be appropriate for the assurance practitioner to undertake one or more of the procedures identified in paragraph 52(f)(iv).

Examples of Other Procedures (Ref: Para. 53)

A45. Other procedures may include, for example:

- (a) reviewing key contracts relevant to the financial information;
- (b) reconciling key recorded accounts and balances to, supporting documentation; and
- (c) re-performing key calculations such as accounting estimates and reconciling any differences noted.

Sampling (Ref: Para. 54)

A46. Sampling⁷⁰ involves:

- (a) Determining a sample size sufficient to reduce sampling risk to an acceptably low level. Because the acceptable level of assurance engagement risk is lower for a reasonable assurance engagement than for a limited assurance engagement, so too may be the level of sampling risk that is acceptable in the case of tests of details. Therefore, when sampling is used for tests of details in a reasonable assurance engagement, the sample size may be larger than when used in similar circumstances in a limited assurance engagement.
- (b) Selecting items for the sample in such a way that each sampling unit in the population has a chance of selection, and performing procedures, appropriate to the purpose, on each item selected. If the assurance practitioner is unable to apply the designed procedures, or suitable alternative procedures, to a selected item, that item is treated as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.
- (c) Investigating the nature and cause of deviations or misstatements identified, and evaluating their possible effect on the purpose of the procedure and on other areas of the engagement.
- (d) Evaluating:
 - (i) the results of the sample, including, for tests of details, projecting misstatements found in the sample to the population; and
 - (ii) whether the use of sampling has provided an appropriate basis for conclusions about the population that has been tested.

Additional Procedures (Ref: Para. 56-57)

A47. Examples of additional procedures may include making further enquiries of the responsible party, or requesting further supporting documentation to ascertain whether the financial information is materially misstated. If however, having performed additional procedures, the assurance practitioner is not able to obtain sufficient appropriate evidence to either conclude that the event(s), condition(s), transaction(s) or error(s) is (are) not likely to cause the financial information to be materially misstated or determine that it does cause the financial information to be materially misstated, a scope limitation exists and the assurance practitioner should consider the implications for the assurance engagement.

Identified Misstatements (Ref: Para. 58)

A48. The assurance practitioner may designate an amount below which misstatements⁷¹ would be clearly trivial and would not need to be accumulated because the assurance practitioner

⁷⁰ See ASA 530 *Audit Sampling*, which describes audit sampling techniques, and may be useful to assurance practitioners when performing an assurance engagement involving sampling.

⁷¹ The concepts and discussions on evaluating misstatements in an audit engagement are contained in ASA 450 *Evaluation of Misstatements Identified during the Audit*; paragraph A2, which may be useful to assurance practitioners when evaluating misstatements in an assurance engagement.

expects that the accumulation of such amounts clearly would not have a material effect on the financial information. “Clearly trivial” is not another expression for “not material.” Event(s), condition(s), transaction(s) or error(s) that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality determined in accordance with this ASAE, and will be matters that are clearly inconsequential, whether taken individually or in the aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

- A49. The assurance practitioner may communicate such matters verbally or in writing, as soon as the event(s), condition(s), transaction(s) or error(s) is (are) identified, to enable the responsible party to investigate the matter(s). The responsible party is then able to advise the assurance practitioner of their findings, provide supporting evidence and their decision on whether the adjustment(s) will be made to the financial information. The assurance practitioner is then able to evaluate the evidence provided to consider if the responsible party’s decision on the adjustment(s) is acceptable to the assurance practitioner.

Evidence (Ref: Para. 65)

- A50. The quantity of evidence obtained by the assurance practitioner is a measure of the sufficiency of the evidence, whilst the quality of the evidence obtained is a measure of its appropriateness; that is, its relevance and its reliability.⁷²

Other Information Included in the Document (Ref: Para. 66)

- A51. The assurance practitioner’s reading of the other information does not infer any assurance on that information, as the assurance practitioner reads it only to establish if there are any material inconsistencies or misstatements which may impact the financial information. Further, the assurance practitioner performs the assessment as if the event(s) or transaction(s) giving rise to the fundraising or report on prospective financial information had occurred. Material inconsistencies in other information that come to the assurance practitioner’s attention may raise doubt about the conclusions drawn from evidence already obtained, and possibly, about the basis for the assurance practitioner’s conclusion in the assurance report.
- A52. The assurance practitioner ordinarily pays particular attention to the following disclosure areas within the document:
- (a) other financial information not subject to the assurance engagement including:
 - (i) summarised financial information, for example in tabular or graphical forms;
 - (ii) any disclosures related to other financial information that has been previously audited or reviewed; and
 - (iii) management discussion and analysis section discussing the other financial information;
 - (b) disclosures about the nature of the event(s) or transaction(s) giving rise to the preparation of the document, including:
 - (i) the purpose of document;
 - (ii) if applicable, the nature and amount of the securities, their value and rights, as well as any minimum subscription and how the proceeds will be applied; and
 - (iii) if application, the risks associated with the fundraising;
 - (c) qualitative and quantitative disclosures about the entity’s plans and future outlooks, including:

⁷² The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500, and may be helpful in determining the evidence applicable to an assurance engagement.

- (i) its long-term and short-term plans to address key challenges; and
- (ii) changer-related risks, opportunities and impacts;
- (c) key trends and factors related to the entity's industry or nature of operations that are likely to affect the entity's strategy or the timescale over which achievement of the strategy is planned; and
- (d) other relevant disclosures, including:
 - (iii) explanations of how revenue would be generated, included relevant contracts;
 - (iv) nature and extent of related party disclosures; and
 - (v) valuation of material assets.

Going Concern Considerations

Assessment

- A53. The assurance practitioner considers the appropriateness of the going concern assumption of the entity when the nature of the assurance engagement means that such an assessment could have implications for the assurance report. Ordinarily the assessment of going concern is appropriate for assurance engagements relating to historical financial information. Ordinarily in an engagement to report on prospective financial information, the going concern assumption is not relevant to the assurance practitioner's conclusion as the nature of the information is subjective, prospective (based on anticipated event(s) or transaction(s) that have not occurred) and its preparation requires the exercise of considerable judgement by the responsible party. (Ref: Para. 68)
- A54. If the assurance practitioner considers that performing a going concern assessment⁷³ is relevant, the assurance practitioner ordinarily performs the assessment as if the event(s) or transaction(s) giving rise to the corporate fundraising or reporting on prospective financial information had occurred, and considers the entity's prepared future forecasts, positive future cash flow statements, the directors' working capital statements, and financial position and any other event(s) or condition(s) that are relevant to the assessment. For example, if the prospects for profitability are not supported by adequate positive future cash flows, then both the forecast financial performance statement and the ongoing viability of the entity are at risk. There may also be mitigating factors that in the assurance practitioner's professional judgement eliminate the going concern uncertainty. These mitigating factors may include: (Ref: Para. 69)
- (a) a review of recently prepared forecasts, cash flow statements, working capital statements or statements of financial performance;
 - (b) unequivocal financial support provided from another entity which has the capacity to provide support;
 - (c) a signed underwriting agreement being in place; and/or
 - (d) the underlying event(s) or transaction(s) giving rise to the document (for example, a capital raising) which will, if completed successfully, raise sufficient funds to result in the entity becoming a going concern.

Mitigating factors should be supported by appropriate written evidence. In such circumstances, the assurance practitioner needs to evaluate and document how the unequivocal financial support or proceeds from the fundraising issue will provide funding for future operations of the entity that will result in the entity becoming a going concern. Consideration should be given to any proposed underwriting of any capital raising, and the circumstances in

⁷³ The concepts and discussions on performing a going concern assessment of an entity, relevant to an audit engagement are contained in Auditing ASA 570, and may be helpful in performing a going concern assessment in an assurance engagement.

which the proposed underwriting may not occur. The assurance practitioner should also consider requesting a written representation from the responsible party regarding the appropriateness of the going concern assumption.

Going Concern Assumption Inappropriate (Ref: Para. 70)

- A55. If the assurance practitioner does not consider the going concern assumption to be appropriate to the entity, the implications for the assurance report depend on whether the responsible party has modified the basis of preparation of the financial information from that of a going concern:
- (a) if the assurance practitioner does not consider the basis to be appropriate, then the conclusion in the assurance report should be modified (adverse conclusion) on the basis of the going concern assumption being inappropriate to the historical financial information; or
 - (b) if the assurance practitioner considers the basis to be appropriate, then the assurance report may include an Emphasis of Matter paragraph to draw attention to the disclosure of this fact.

Consideration of Events up to the Date of the Assurance Report (Ref: Para. 71-73)

- A56. The extent of consideration by the assurance practitioner of event(s) or transaction(s) occurring after the date of performing assurance procedures, and before the date of the assurance report (commonly referred to as subsequent events), depends on the agreed terms of engagement for reporting of subsequent events and the requirements of applicable law, regulation, or professional standards.⁷⁴
- A57. The type of areas to be considered include:
- (a) the potential for such event(s), condition(s), transaction(s) or error(s) to materially affect the financial information in the document in terms of requiring comment on, or correction to, the financial information;
 - (b) whether such event(s), condition(s), transaction(s) or error(s) are within the ordinary business of the entity; and
 - (c) whether such event(s) or transaction(s) cause the financial information to be potentially misleading or deceptive.

Consideration of Events Identified after the date of the Assurance Report (Ref: Para. 74-75)

- A58. If there are event(s), condition(s), transaction(s) or error(s) omitted from the document, which come to the assurance practitioner's attention after:
- (a) the document has been lodged with the appropriate regulatory body, if it is a public document; or
 - (b) the document has been finalised and issued to its intended user(s) and before the relevant date, if it is not a public document;

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

- A59. If event(s), condition(s), transaction(s) or error(s) with a potentially material impact on the financial information come to the assurance practitioner's attention prior to the relevant date, the assurance practitioner discusses the omissions with the responsible party. If the responsible party refuses to correct such omissions, the assurance practitioner ordinarily withdraws consent for the entity to include the assurance report in the document, and evaluates

⁷⁴ The concepts and discussions on subsequent events relevant to an audit engagement are contained in Auditing Standard ASA 560, and may be helpful in determining the principles applicable to an assurance engagement.

if there are any applicable law, regulation, agreement or other professional responsibilities that impose particular reporting obligations on the assurance practitioner (for example, reporting such matters to the entity's due diligence committee).

Written Representations (Ref: Para. 76)

- A60. The assurance practitioner requests and obtains written representations from the responsible party at the completion of the assurance engagement.⁷⁵ If the responsible party is those charged with governance in the entity, the representation letter should be provided by them and not management. The assurance practitioner ordinarily provides the responsible party with a specific list of representations required. Such matters may already be contained in documentation reviewed by the assurance practitioner, including minutes of meetings, written acceptance of the assurance engagement terms, and due diligence committee reports. Therefore the assurance practitioner only needs to request the inclusion of such matters in the written representations if the assurance practitioner considers it appropriate in the assurance engagement circumstances.
- A61. Appendix 2 provides an illustrative representation letter.
- A62. 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 the financial information, may be considered sufficient appropriate 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 investigates and evaluates such inconsistencies in terms of their impact on the assurance report and whether additional procedures are required in order to resolve the inconsistencies and obtain sufficient appropriate evidence.
- A63. 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 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.

Forming the Assurance Conclusion

Emphasis of Matter Paragraph (Ref: Para. 85)

- A64. An example of a matter that may give rise to an emphasis of matter paragraph is when the assurance practitioner believes the going concern assumption is appropriate, but a material uncertainty exists. In such circumstances, the assurance practitioner ordinarily considers the adequacy of the going concern related disclosures within the financial information and the other parts of the document. If the assurance practitioner considers the responsible party has adequately disclosed:
- (a) a description of the principal event(s) or condition(s) that cast significant doubt on the entity's going concern ability; and
 - (b) the fact that a material uncertainty exists related to the event(s) or condition(s); and
 - (c) therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business;

then the assurance practitioner is able to express an unmodified conclusion on the financial information, with an Emphasis of Matter paragraph to highlight the existence of the material uncertainty and to draw attention to the responsible party's disclosures. If there is not adequate

⁷⁵ 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.

disclosure, then the assurance practitioner expresses a qualified conclusion or adverse conclusion, as appropriate.

Modified Conclusion

- A65. 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, when such evidence would ordinarily be available, constitutes a limitation on the scope of the assurance engagement, even if a written representation from the responsible party has been received by the assurance practitioner on the matter. (Ref: Para. 86(c))
- A66. Applicable law or regulation may preclude the assurance practitioner from expressing a modified conclusion in an assurance report that is to be included in a public document. Where this is the case, and the assurance practitioner concludes that a modified conclusion is nevertheless appropriate, the assurance practitioner discusses the matter with the responsible party. If the responsible party does not agree to make the changes required to enable the assurance practitioner to issue an unmodified conclusion, the assurance practitioner considers whether to withhold the assurance report, withdraw from the assurance engagement, or obtain legal advice. If the responsible party decides to omit the modified assurance report from the document, the assurance practitioner considers any other professional reporting obligations such as, for example, to the entity's due diligence committee. (Ref: Para. 87)

Preparing the Assurance Report

- A67. The assurance report may be prepared solely in respect of one type of financial information or be a composite report where two or more types of financial information are the subject of the assurance report (for example historical and prospective financial information). (Ref: Para. 88)
- A68. If the assurance practitioner is preparing a composite assurance report, the assurance practitioner needs to ensure that: (Ref: Para. 89)
- (a) the different types of financial information are clearly identified in the document, and separately referred to in the assurance report; and
 - (b) the assurance report clearly identifies and segregates the work carried out, and type of assurance expressed, on the different types of financial information.
- A69. In respect of an assurance report that is being included in a public document prepared in accordance with the *Corporations Act 2001*, the assurance practitioner also needs to ensure that the assurance report is appropriately: (Ref: Para. 90)
- (a) cross referenced, and consistent with, other information disclosed in the public document; and
 - (b) positioned in the public document in the section containing the financial information.⁷⁶
- A70. Appendix 3 contains illustrative examples of assurance reports. (Ref: Para. 88)

Consent to the Inclusion of the Assurance Report in a Public Document (Ref: Para. 91-92)

- A71. For assurance reports in connection with a public document prepared in accordance with the *Corporations Act 2001*, the assurance practitioner is required to consent to the form and context in which the assurance report is included in that public document.⁷⁷ Such consent is ordinarily provided by way of a separate consent letter issued to the entity prior to the assurance report. Consequently, the assurance practitioner ordinarily reads all other information included in the public document for consistency. If there are material inconsistencies, or material misstatements of fact, related to the financial information which remains uncorrected by the responsible party, or the assurance practitioner does not consider

⁷⁶ See ASIC's RG 170.

⁷⁷ See Section 716 of the *Corporations Act 2001*.

the assurance report will be used for the intended purpose, the assurance practitioner ordinarily does not provide consent.

Documentation (Ref: Para. 94)

- A72. Sufficient appropriate documentation⁷⁸ should include a record of the assurance practitioner's reasoning on all significant matters that required the exercise of professional judgement, together with the assurance practitioner's conclusions on the matters. In areas involving difficult questions of estimate, principle or judgement, the documentation should include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.
- A73. In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner ordinarily considers what would be necessary for another experienced assurance practitioner who has no previous experience with the assurance engagement to obtain an understanding of the work performed and the basis of the significant decisions taken. It is, however, neither necessary nor practicable to document every matter the assurance practitioner considers during the assurance engagement.

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⁷⁸ The concepts and discussions on documentation relevant to an audit engagement are contained in Auditing Standard ASA 230 *Audit Documentation*, and may be helpful in determining appropriate documentation to be obtained in an assurance engagement.

Historical Financial Information

Preparing the Assurance Report (Ref: Para. 98)

Basic Elements of the Assurance Report

Reasonable Assurance

A74. The assurance report in a reasonable assurance engagement ordinarily follows a standard wording and only in summary form describes the procedures performed. This is because, in a reasonable assurance engagement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the assurance practitioner to express an opinion.

Limited Assurance

A75. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in a limited assurance report. A description of the assurance practitioner's procedures in a limited assurance engagement is ordinarily therefore more detailed than in a reasonable assurance engagement. It also may be appropriate to include a description of the procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the assurance practitioner's understanding and assessment of the risks of material misstatement are less than in a reasonable assurance engagement. The assurance practitioner does not ordinarily detail all procedures in the assurance report.

Factors to consider in making that determination and the level of detail to be provided include:

- (a) circumstances specific to the entity (for example, the differing nature of the entity's activities compared to those typical in the sector);
 - (b) specific engagement circumstances affecting the nature and extent of the procedures performed; and
 - (c) the intended users' expectations of the level of detail to be provided in the assurance report based on market practice, or applicable laws or regulations.
- A76. In describing the procedures performed in the limited assurance report, it is important that they are written in an objective way but are not summarised to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures do not give the impression that an agreed-upon procedures engagement has been undertaken.

Pro Forma Historical Financial Information

A77. In Australia, assurance practitioners are ordinarily requested by the responsible party to provide assurance on the pro forma historical financial information. In circumstances where the assurance practitioner: (Ref: Para. 99)

- (a) cannot access, or obtain sufficient access to, documentation supporting the source of the unadjusted historical financial information or the pro forma adjustments; or
- (b) does not audit one of the entities whose financial information is included in the pro forma historical financial information;

the assurance practitioner and responsible party may alternatively agree for an assurance engagement to be conducted to report on the compilation of the pro forma historical financial information. In such circumstances, refer ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*.

A78. Circumstances such as those outlined in paragraph A77 may occur, for example: (Ref: Para. 99)

- (a) when the fundraising involves a takeover transaction in which neither the assurance practitioner nor the responsible party of the entity are able to access the other entity's financial information;
- (b) when the fundraising involves a takeover transaction where the other entity has not been subject to an audit or review; or
- (c) there is insufficient time in which to conduct the engagement to enable the expression of assurance on the pro forma historical financial information itself.

Engagement Acceptance

Other Factors Affecting Engagement Acceptance (Ref: Para. 101)

A79. Ordinarily, the assurance practitioner only provides limited assurance on pro forma historical financial information, as the pro forma adjustments made to the unadjusted financial information (which is historical) are based on the responsible party's stated basis of preparation. 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.

Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and Its Environment

Audited or Reviewed Unadjusted Financial Information (Ref: Para. 102(a)(ii))

A80. The assurance practitioner may:

- (a) Request a copy of the audit or review report accompanying the unadjusted financial information and, if obtained, reading it to understand if the report was modified or unmodified. If the report was modified, understanding the reasons for the modification;
- (b) Contact the other assurance practitioner to request access to the audit working papers supporting the audit or review report and, if provided, reading the work papers to assess the appropriateness of the audit approach taken for the purposes of placing reliance on that audit or review report in assessing the appropriateness of the source of the unadjusted financial information;

- (c) Read the unadjusted financial information to which the audit or review report relates to establish if its basis of preparation (that is, its accounting policies) and time frame covered are acceptable; and/or
- (d) Plan to perform further procedures as is considered necessary in the engagement circumstances.

A81. If the assurance practitioner requests access to the audit working papers of another assurance practitioner and is unable to obtain such access, this constitutes a limitation of scope on the assurance practitioner being able to assess the appropriateness of the source of the unadjusted financial information. If the assurance practitioner is unable to perform alternative procedures to obtain sufficient appropriate evidence on its appropriateness, the assurance practitioner modifies the conclusion in the assurance report in accordance with paragraph 86(c).*

Overall Responses to Assessed Risks of Material Misstatement and Further Procedures

Assurance Procedures

A82. The assurance procedures may include: (Ref: Para. 103(a))

- (a) enquiring of the responsible party about:
 - (i) the process by which the source has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled;
 - (ii) whether all transactions for the time period have been recorded;
 - (iii) whether the source has been prepared in accordance with the entity's accounting policies;
 - (iv) whether there have been any changes in accounting policies from the most recent audited or reviewed period, if so, how such changes have been dealt with;
 - (v) its assessment of the risk that the source may be materially misstated as a result of error or fraud; and
 - (vi) the effect of changes in the entity's business activities and operations;
- (b) if the assurance practitioner has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the unadjusted financial information has been extracted;
- (c) corroborating the information provided by the responsible party in response to the assurance practitioner's enquiries, when the responses appear inconsistent with the assurance practitioner's understanding of the entity, or the engagement circumstances; and
- (d) comparing the source with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party.

No Audit or Review of the Unadjusted Financial Information (Ref: Para. 103(b))

A83. When there is no audit or review report on the source from which the unadjusted financial information has been extracted, it is necessary for the assurance practitioner to perform procedures in relation to the appropriateness of that source. Factors that may affect the nature and extent of these procedures include, for example:

* See ASAE 3000, paragraphs 82-84 for further information.

- (a) Whether the assurance practitioner has previously audited or reviewed the entity's historical financial information, and the assurance practitioner's knowledge of the entity from such engagement.
- (b) How recently the entity's historical financial information was audited or reviewed.
- (c) Whether the entity's financial information is subject to periodic review by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.
- (d) Whether the assurance practitioner is able to access documentation describing, and supporting, the source of the unadjusted historical financial information.
- (e) The type of assurance to be provided.

Pro Forma Adjustments (Ref: Para. 103(d))

- A84. For the pro forma financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the stated basis of preparation. In the context of a business combination, for example, this may involve consideration of such matters as:
- (a) whether differences exist between the acquiree's accounting policies and those of the entity; and
 - (b) whether accounting policies for transactions undertaken by the acquiree that the entity has not previously entered into, are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into account the entity's particular circumstances.
- A85. Consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, as part of the event(s) or transaction(s), the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:
- (a) whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework; and
 - (b) whether it has appropriately applied such policies in preparing the pro forma historical financial information.

Preparing the Assurance Report

Basic Elements of the Assurance Report (Ref: Para. 107(a)(iii))

- A86. The stated basis of preparation for the pro forma historical financial information chosen by the responsible party is ordinarily represented by the recognition and measurement principles contained in Australian Accounting Standards and the accounting policies adopted by the responsible party, as applied to the unadjusted historical financial information and the pro forma adjustments.

Prospective Financial Information

Assurance Engagement Acceptance

Preconditions for Acceptance

Type of assurance (Ref: Para. 109(a))

- A87. The nature of prospective financial information, being information prepared based on events and actions that have not yet occurred, and may not occur, means that the engagement may be conducted as a limited assurance engagement, or in certain circumstances, a combined limited assurance and reasonable assurance engagement on different elements of the prospective financial information:
- (a) Assumptions - evidence may be available to support the responsible party's underlying assumptions, however such evidence is itself generally future orientated and, therefore, speculative in nature, as distinct from being factually supportable. Due to this, the assurance practitioner is not able to provide any assurance on the reasonableness of the assumptions but may be able to provide limited assurance on whether they provide reasonable grounds for the prospective financial information.
 - (b) Basis of the prospective financial information - the assurance practitioner is ordinarily able to provide limited or reasonable assurance (depending on the terms of the engagement and the sufficiency and availability of evidence) that the prospective financial information has been prepared on the basis of those assumptions, and presented fairly in accordance with the entity's stated basis of preparation.
 - (c) Prospective financial information itself - given the nature of the evidence available to support the underlying source of the prospective financial information being inherently uncertain, the assurance practitioner is not able to conclude as to whether the results shown in the prospective financial information will be achieved, however the assurance practitioner may be in a position to provide limited assurance on whether the prospective financial information itself is unreasonable.
- A88. The type of assurance that the assurance practitioner agrees to provide on different elements of the prospective financial information may depend on the assurance practitioner's assessment of the following:
- (a) the engagement circumstances, including the nature (for example, complexity or simplicity) and type of the entity (for example, start up or ongoing), timeframe covered and overall purpose of including the prospective financial information in the document;
 - (b) the assurance practitioner's professional judgement in whether there is, or will be, sufficient appropriate evidence available to support the level of assurance requested; and
 - (c) any prior experience the assurance practitioner may have with the entity in terms of the accuracy, completeness and timeliness of financial information prepared by the responsible party.

Other Factors Affecting Engagement Acceptance

- A89. In obtaining an preliminary understanding of whether the assumptions have reasonable grounds, the assurance practitioner considers matters such as: (Ref: Para. 110(a)(i))
- (a) the nature of the assumptions (best-estimate or hypothetical), and whether their impact are material to the prospective financial information;
 - (b) the economic viability, stability and financial strength of the entity;

- (c) the economic viability and substance of the fundraising and the assumptions related to it;
- (d) the availability and quality of the data supporting the assumptions (for example, the data is sourced from statistical, mathematical or computer-assisted techniques); and
- (e) if applicable, the assurance practitioner's past experience with the accuracy of the entity's previous prospective financial information, as against actual results.

A90. If the source of the underlying financial information is historical and has not been previously audited or reviewed, the assurance practitioner is less likely to be able to provide any assurance on the prospective financial information unless the responsible party agrees to include a review of such financial information as part of the assurance engagement terms. If the source of the underlying financial information is not historical, the assurance practitioner either plans to perform procedures to obtain sufficient appropriate evidence on the base financial information sufficient to conclude on the overall prospective financial information, or if this is not practical or possible, discusses with the responsible party performing an engagement to report on the compilation of the prospective financial information rather than the prospective financial information itself. (Ref: Para. 110(a)(ii))

A91. The assurance practitioner should be satisfied based on preliminary knowledge that the assurance engagement has a rational purpose. Examples where this may not be the case include: (Ref: Para. 110(b))

- (a) the reason for the preparation of the prospective financial information is unclear;
- (b) the prospective financial information does not have a reasonable basis for inclusion in a public document (for example it is a projection);⁷⁹
- (c) the prospective financial information is materially affected by hypothetical assumptions;
- (d) there will be significant limitations on the scope of the assurance practitioner's work; or
- (e) the engagement circumstances lead the assurance practitioner to believe that the responsible party intends to associate the assurance practitioner's name with the prospective financial information in an inappropriate manner.

No Audit or Review Report on the Source of the Prospective Financial Information (Ref: Para. 112(c))

A92. This ASAE does not require the assurance practitioner to perform an audit or review of the source from which the unadjusted financial information has been extracted as part of the engagement, if such an audit or review has not already been performed.

Assumptions (Ref: Para. 114(b)(iv))

A93. A high risk that there may be a significant difference between the prospective financial information and actual results may call into question the suitability and reasonableness of the assumptions used as the basis for the preparation of the prospective financial information and their characterisation as reasonable.

Prospective Financial Information prepared in accordance with the Stated Basis of Preparation and Assumptions

A94. The assurance practitioner's evaluation of the stated basis of preparation used by the responsible party ordinarily considers: (Ref: Para. 116(a))

- (a) the process for its selection and approval;

⁷⁹ For prospective financial information included in a public document, see the *Corporations Act 2001* and Corporations Regulations for requirements. See RG 170, for guidance on what constitutes reasonable grounds for inclusion.

- (b) the differences, if any to the basis of preparation, compared to the most recent financial report; and
- (c) its suitability for the preparation of the prospective financial information.

Preparing the Assurance Report

Basic Elements of the Assurance Report (Ref: Para. 121(e)(ii))

Reasonable Assurance

A95. The assurance report in a reasonable assurance engagement ordinarily follows a standard wording and only in summary form describes the procedures performed. This is because, in a reasonable assurance engagement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the assurance practitioner to express an opinion.

Limited Assurance

A96. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in a limited assurance report. A description of the assurance practitioner's procedures in a limited assurance engagement is ordinarily therefore more detailed than in a reasonable assurance engagement. It also may be appropriate to include a description of the procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the assurance practitioner's understanding and assessment of the risks of material misstatement are less than in a reasonable assurance engagement. The assurance practitioner does not ordinarily detail all procedures in the assurance report.

Factors to consider in making that determination and the level of detail to be provided include:

- (a) circumstances specific to the entity (for example, the differing nature of the entity's activities compared to those typical in the sector);
 - (b) specific engagement circumstances affecting the nature and extent of the procedures performed; and
 - (c) the intended users' expectations of the level of detail to be provided in the report, based on market practice, or applicable laws or regulations.
- A97. In describing the procedures performed in the limited assurance report, it is important that they are written in an objective way but are not summarised to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures do not give the impression that an agreed-upon procedures engagement has been undertaken.

Pro Forma Forecast

Assurance Engagement Acceptance

Other Factors Affecting Engagement Acceptance (Ref: Para. 124)

A98. Ordinarily, the assurance practitioner only provides limited assurance on pro forma forecast, as the pro forma adjustments made to the unadjusted financial information are based on the responsible party's stated basis of preparation. 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.

Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and Its Environment

Audited or Reviewed Unadjusted Financial Information (Ref: Para. 125(a))

A99. The assurance practitioner may:

- (a) Request a copy of the audit or review report accompanying the unadjusted financial information and, if obtained, reading it to understand if the report was modified or unmodified. If the report was modified, understanding the reasons for the modification;
- (b) Contact the other assurance practitioner to request access to the audit working papers supporting the audit or review report and, if provided, reading the work papers to assess the appropriateness of the audit approach taken for the purposes of placing reliance on that audit or review report in assessing the appropriateness of the source of the unadjusted financial information;
- (c) Read the unadjusted financial information to which the audit or review report relates to establish if its basis of preparation (that is, its accounting policies) and time frame covered are acceptable; and/or
- (d) Plan to perform further procedures as is considered necessary in the engagement circumstances.

A100. If the assurance practitioner requests access to the audit working papers of another assurance practitioner and is unable to obtain such access, this constitutes a limitation of scope on the assurance practitioner being able to assess the appropriateness of the source of the unadjusted financial information, If the assurance practitioner is unable to perform alternative procedures to obtain sufficient appropriate evidence on its appropriateness, the assurance practitioner modifies the conclusion in the assurance report in accordance with paragraph 86(c).*

Overall Responses to Assessed Risks of Material Misstatement and Further Procedures

Assurance Procedures

A101. The assurance procedures may include: (Ref: Para. 126(a))

- (a) enquiring of the responsible party about:
 - (i) the process by which the source has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled;
 - (ii) whether all transactions for the time period have been recorded;

* See ASAE 3000, paragraphs 82-84 for further information.

- (iii) whether the source has been prepared in accordance with the entity's accounting policies;
 - (iv) whether there have been any changes in accounting policies from the most recent audited or reviewed period, if so, how such changes have been dealt with;
 - (v) its assessment of the risk that the source may be materially misstated as a result of error or fraud; and
 - (vi) the effect of changes in the entity's business activities and operations;
- (b) if the assurance practitioner has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the unadjusted financial information has been extracted;
 - (c) corroborating the information provided by the responsible party in response to the assurance practitioner's enquiries, when the responses appear inconsistent with the assurance practitioner's understanding of the entity, or the engagement circumstances and
 - (d) comparing the source with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party.

No Audit or Review of the Unadjusted Financial Information (Ref: Para. 126(b))

A102. When there is no audit or review report on the source from which the unadjusted financial information has been extracted, it is necessary for the assurance practitioner to perform procedures in relation to the appropriateness of that source. Factors that may affect the nature and extent of these procedures include, for example:

- (a) Whether the assurance practitioner has previously audited or reviewed the entity's historical financial information, and the assurance practitioner's knowledge of the entity from such engagement.
- (b) How recently the entity's historical financial information was audited or reviewed.
- (c) Whether the entity's financial information is subject to periodic review by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.
- (d) Whether the assurance practitioner is able to access documentation describing, and supporting, the source of the unadjusted historical financial information.
- (e) The type of assurance to be provided.

Pro Forma Adjustments (Ref: Para. 126(d))

A103. For the pro forma financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the stated basis of preparation. In the context of a business combination, for example, this may involve consideration of such matters as:

- (a) Whether differences exist between the acquiree's accounting policies and those of the entity; and
- (b) Whether accounting policies for transactions undertaken by the acquiree that the entity has not previously entered into, are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into account the entity's particular circumstances.

- A104. Consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, as part of the event(s) or transaction(s), the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:
- (a) whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework; and
 - (b) whether it has appropriately applied such policies in preparing the pro forma forecast.

Preparing the Assurance Report

Basic Elements of the Assurance Report (Ref: Para. 130(a)(iii))

- A105. The stated basis of preparation for the pro forma forecast chosen by the responsible party is ordinarily represented by the recognition and measurement principles contained in Australian Accounting Standards, and the accounting policies adopted by the responsible party, as applied to the unadjusted financial information and the pro forma adjustments.

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Conformity with International Standards on Assurance Engagements

This Standard on Assurance Engagements has been made for Australian public interest purposes, and accordingly there is no equivalent International Standard on Assurance Engagements, 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.

Draft

Appendix 1

(Ref: Para. A10)

ILLUSTRATIVE ENGAGEMENT LETTER

The following illustrative engagement letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ASAE. It will need to be varied according to individual requirements and circumstances.

Engagement Circumstances are:

ABC Company proposes a takeover of XYZ Target company.

Limited assurance engagement on historical financial information, compiled pro forma historical financial information and a forecast.

Introduction

This letter confirms our understanding of the terms of engagement requiring our services as investigating accountant in respect of financial information to be included in the proposed Bidder Statement of ABC Company Limited (“ABC Company”) to be issued in connection with 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 assurance report we will deliver.

Scope of our work

Our firm will:

- perform procedures, described below, to enable us to report on the ABC Company’s historical Statement of Financial Position as at 30 June 20X1, Statements of Financial Performance for the years ended 30 June 20XX and 20X1 and Statements of Cash Flows for the years ended 30 June 20XX and 20X1 (the “historical financial information”);
 - perform procedures, described below, to enable us to report on ABC Company’s compilation of pro forma historical Statement of Financial Position, shown with pro forma adjustments to show the effect of events and transactions related to the takeover as if they had occurred at 30 June 20XX, Pro Forma Historical Statements of Financial Performance for the years ended 30 June 20XX and 20X1 and Pro Forma Historical 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 compilation of forecast Statements of Financial Performance for the combined ABC Company/XYZ Target group for the year ended 30 June 20XX (“the aggregated forecast”); and
 - perform procedures, described below, to enable us to report on ABC Company’s forecast Statement of Financial Performance for the year ending 30 June 20XX (“the forecast”);
- collectively referred to as the “financial information”.

We will conduct our engagement in accordance with ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Review of ABC Company’s historical financial information

We will review the historical financial information of ABC Company, comprising the Statement 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 contained in Australian Accounting Standards and the entity’s

adopted accounting policies, as described in the proposed Bidder Statement (the “stated basis of preparation”).

The review procedures will include, but are not limited to:

- analytical procedures on the unaudited Statement of Financial Position of ABC Company as at 30 June 20X1, Statements of Financial Performance and Statements of Cash Flows of ABC Company for the years ended 30 June 20XX and 20X1;
- a consistency check in the application of the stated basis of preparation, as described in the proposed Bidder Statement, to the historical financial information;
- 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.

Our review procedures will not provide all the evidence that would be required in an audit, thus the level of assurance (limited assurance) provided will be less than given in an audit. Our review is not an audit and, accordingly, we will not express an audit opinion.

Review of ABC Company/XYZ Target’s compiled pro forma historical financial information

We will review the director’s compilation of the combined ABC Company/XYZ Target in order to state whether, on the basis of the procedures described, anything comes to our attention that would cause us to believe that the pro forma historical financial information is not compiled, in all material respects, by the directors on the basis of the stated basis of preparation. The stated basis of preparation is:

- 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;
- the 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
- the pro forma adjustments applied to the historical financial information from ABC Company and XYZ Target to illustrate the effects of the takeover described in section [X] of the proposed Bidder Statement.

The review procedures will include, but are not limited to:

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of historical financial information of ABC Company from its audited financial statements for the years ended 30 June 20XX and 20X1, and those dealing with the extraction of historical financial information of XYZ Target from its audited financial statements for the years ended 30 June 20XX and 20X1;
- consideration of the pro forma adjustments described in section [X] of the proposed Bidder Statement;
- enquiry of directors, management, personnel and advisors;
- the performance of analytical procedures applied to the pro forma historical financial information;
- a review of work papers, accounting records and other documents of ABC Company and its auditors; and
- a review of accounting policies for consistency of application, and identification of any adjustments necessary to align the accounting policies of XYZ Target to those of ABC Company.

The procedures will not provide all the evidence that would be required in an audit, thus, the level of assurance provided (limited assurance) will be less than given in an audit. Our review is not 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 as to whether the pro forma historical financial information is presented fairly, in all material respects, in accordance with the stated basis of preparation.

Review of ABC Company forecast

We will review the ABC Company forecast and the directors' best-estimate assumptions underlying it 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 directors' best-estimate assumptions do not provide reasonable grounds for the ABC Company forecast;
- in all material respects:
 - the forecast is not prepared on the basis of the directors' best-estimate assumptions as described in section [X] of the proposed bidder statement; and
 - is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards, applied to the forecast and the company's adopted accounting policies;
- the forecast itself is unreasonable.

The review procedures will include, but are not limited to enquiry, comparison, and other such analytical review procedures we consider necessary.

Our review of the ABC Company forecast 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 and amounts in the forecast; and
 - the evaluation of accounting policies used in the forecast.

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 ABC Company forecast 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. Our review is not an audit and we will not express an audit opinion on the ABC Company forecast or the directors' best-estimate assumptions underlying the ABC Company forecast. Our Firm will not express any opinion as to whether the ABC Company forecast will be achieved, or warrant or guarantee any statements as to the future prospects of ABC Company.

Review of the ABC company/XYZ Target's compiled aggregated pro forma forecast

We will review the directors' compilation of the ABC Company's/XYZ Targets' aggregated pro forma forecast ("aggregated forecast") in order to state whether based on the procedures performed anything has come to our attention that causes us to believe that the aggregated forecast is not compiled, in all

material respects by the directors, in accordance with the stated basis of preparation. The stated basis of preparation is:

- the ABC Company forecast;
- [publicly] available forecast information of XYZ Target; and
- the directors' best-estimate assumptions underlying the aggregated forecast.

Our review procedures will include, but are not limited to enquiry, comparison, and other such analytical review procedures we consider necessary.

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. Our review is not an audit and we will not express an audit opinion on the aggregated forecast or the directors' best-estimate assumptions underlying the aggregated forecast. Our Firm will not express any opinion as to whether the aggregated forecast will be achieved, or warrant or guarantee any statements as to the future prospects of ABC Company.⁸⁰

Reporting

As a result of the above work procedures, we intend to issue an Independent Assurance Report to the directors of ABC Company for inclusion in the proposed 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 Independent Assurance Report, and any other experts' reports;
- issuing the proposed Bidder Statement;
- the preparation and presentation of the financial information included in the proposed Bidder Statement;
- the directors' best-estimate assumptions on which the ABC Company forecast is based;
- the directors' best-estimate 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 Independent Assurance Report.

We will require written representations from ABC Company that all material information relevant to the financial information within the company's 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.

Consent

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 Independent Assurance 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.

⁸⁰ If sufficient access is granted to the XYZ Target's forecast and assumptions underlying the forecast, the wording can be amended.

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.]

Acceptance of Engagement Terms

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

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

Yours Faithfully

[Firm name]

[Name of partner]

Partner

Client Acceptance

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

Signature

Name

Position

Appendix 2

(Ref: Para. A61)

ILLUSTRATIVE REPRESENTATION LETTER

The following illustrative representation letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ASAE. It will need to be varied according to individual engagement requirements and circumstances.

Engagement Circumstances include the following:

ABC Company proposes to issue a prospectus.

Limited assurance engagement reporting on historical financial information, pro forma historical financial information and a directors' forecast.

Entity Letterhead

Firm Name

Address

[Date]

Dear Sirs,

This letter is provided in connection with your engagement to provide an independent assurance report on the financial information (comprising historical financial information, pro forma historical financial information and the Directors' forecast included in the prospectus of ABC Company Limited ("ABC Company") to be dated on or around [31 October 20XX], in accordance with the terms and conditions contained in your engagement letter dated [insert date].

Expressions and terms defined in the prospectus have the same meaning in this letter.

General Representations

We acknowledge that your engagement has been conducted in accordance with Standard on Assurance engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*. We understand that your engagement involved a review of the financial information in order to provide limited assurance, and consequently the procedures performed were limited primarily to enquiries of ABC Company personnel and analytical review procedures applied to the financial information, and thus provide less assurance than in 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 assurance engagement involves providing reasonable assurance in relation to any of the financial information.]*

We acknowledge our responsibility for the preparation of the prospectus, including the preparation and presentation of all financial information contained therein, in accordance with the *Corporations Act 2001* (the Act).

We confirm that, to the best of our knowledge and belief (having made such enquiries as we considered necessary for the purposes of appropriately informing ourselves):

- ABC Company's financial information 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 financial information is appropriate.
- 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 assurance report. [Firm Name] is 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 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.
- Any material changes that may have occurred between the date of the assurance report and the lodgement date of the prospectus with the Australian Securities and Investments Commission (“ASIC”) have been advised to [Firm Name].
- All material events and transactions have been properly recorded in the accounting records underlying the 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 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 financial information.
- [Other than detailed in the prospectus], 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, 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.
- [Other than detailed in the prospectus], there has been no changes in accounting policies, or the application of the accounting policies, that have a material effect on the financial information. The accounting policies have been consistently applied in the preparation of the financial information.
- We believe there have been no uncorrected misstatements that are material, both individually and in aggregate, to any of the financial information under review. The uncorrected misstatements contained in [Appendix 1] are, we believe, immaterial, both individually and in aggregate to the financial information to which it relates.
- 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 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 financial information that would require adjustment to that financial information or disclosure in the prospectus.
- There will not be any deficiencies or encumbrances attaching to the title of ABC Company’s assets during the period covered by the financial information, other than those already reflected in the prospectus.

- 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 financial information that are not already reflected therein.
- The ABC Company's board of directors are 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 financial information.
- *[Include any other matters that the assurance practitioner considers appropriate.]*

Historical financial information and pro forma historical financial information

With respect to the historical financial information and pro forma historical financial information of ABC Company for the year's ended 30 June 20XX and 20X1, we acknowledge our responsibility for the preparation and presentation of that financial information on which the independent assurance report is based. These financial statements include the Statement of Financial Position, Statements of Financial Performance, Statement of Cash flows and related notes. We confirm that, to the best of our knowledge and belief (having made such enquiries as we considered necessary for the purposes of appropriately informing ourselves):

- ABC Company's historical financial information included in the prospectus has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the adopted accounting policies as described in section [X] of the prospectus.
- ABC Company's pro forma historical financial information included in the prospectus has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the adopted accounting policies applied to:
 - ABC Company's historical financial information, as described in section [X] of the prospectus; and
 - pro forma adjustments as described in section [X] of the prospectus as if those adjustments had occurred as at the date of ABC Company's historical financial information.
- Disclosures not included in the prospects with respect to the financial information have been determined by us to be not material to users of the prospectus.

Directors' forecast

With respect to the directors' forecast prepared in respect of the financial period 30 June 20XX to 30 June 20X2, we acknowledge our responsibility for the preparation and presentation of that information, the best-estimate assumptions used therein and its compliance with the stated basis of preparation.

We confirm that, to the best of our knowledge and belief (having made such enquiries as we considered necessary for the purposes of appropriately informing ourselves):

- The best-estimate assumptions described in section [X] of the prospectus have been agreed by the ABC Company's board of directors, and, taken as a whole provide a reasonable basis for the directors' forecast.
- The best-estimate assumptions underlying the directors' forecast have reasonable grounds, supportable and consistent between themselves and with ABC Company's strategic plans, and have been consistently applied.
- The Directors' forecast has been prepared using the 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 Directors' forecast is appropriately called a forecast.

- All liabilities which will arise out of the activities of ABC Company have been included in the directors' forecast.
- 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.
- 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.
- No transactions(s) or 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.
- *[Include any other matters that the assurance practitioner considers appropriate].*

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 3

(Ref: Para. A70)

ILLUSTRATIVE ASSURANCE REPORTS

The following illustrative assurance reports can be tailored for specific engagement circumstances.

- Illustration 1: Independent Assurance Report on historical financial information and pro forma historical financial information included in a public document, with unmodified limited assurance conclusions
- Illustration 2: Independent Assurance Report on a forecast and pro forma forecast included in a public document, with unmodified limited assurance conclusions
- Illustration 3: Independent Assurance Report on prospective financial information in the form of a forecast, not included in a public document, with an unmodified limited assurance conclusion
- Illustration 4: Independent Assurance Report on prospective financial information in the form of a forecast, not included in a public document, with a mixture of unmodified limited assurance and reasonable assurance on different elements of the prospective financial information

Draft

Illustration 1: Engagement Circumstances include the following:

- **ABC Company proposes to issue a prospectus which includes historical financial information and pro forma historical financial information.**
- **Limited assurance engagement on historical financial information and pro forma historical financial information, with unmodified conclusions.**

[Date]⁸¹

The Directors

ABC Company Limited

[Address]

Dear Directors,⁸²

Independent Assurance Report on ABC Company historical and pro forma historical financial information

We have been engaged to report on the historical financial information and pro forma historical financial information of ABC Company Limited (“ABC Company”) [as at/for the period [date]] for inclusion in the prospectus dated on or about [insert date] and relating to the issue of [X] shares in ABC Company (“the prospectus”).

Expressions and terms 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 Australian Financial Service License (AFSL) under the *Corporations Act 2001*. [Firm name] holds the appropriate AFSL under the *Corporations Act 2001*.

[Insert any background information relating to ABC Company and/or the proposed fundraising deemed relevant; if any.]

Scope

Historical Financial Information

You have requested [Firm Name] to review the following historical financial information of ABC Company included in the prospectus:

- the Statement of Financial Performance for the [year(s)/period(s)] ended [insert date];
- the Statement of Financial Position as at [insert date];
- the Statement of Cash Flows for the [(year(s)/period(s)] ended [insert date];

The historical financial information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the company’s adopted accounting policies. The historical financial information 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 historical financial information is presented in the prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

⁸¹ The date of both the hard copy and electronic version of the report should be the same. See ASIC’s RG 107 *Electronic Prospectuses*.
⁸² Or other title, as appropriate, in the circumstances of the assurance engagement.

Pro Forma historical financial information

You have requested [Firm Name] to review the pro forma historical Statement of Financial Position as at [insert date] referred to as “the pro forma historical financial information”.

The pro forma historical financial information has been derived from the historical financial information of ABC Company, after adjusting for the effects of pro forma adjustments described in section [X] of the prospectus. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section [X] of the prospectus, as if those event(s) or transaction(s) had occurred as at the date of the historical financial information. Due to its nature, the pro forma historical financial information does not represent the company’s actual or prospective [financial position], [financial performance], and/or [cash flows].

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

Directors’ responsibility

The directors of ABC Company are responsible for the preparation of the historical financial information and pro forma historical financial information, including the selection and determination of pro forma adjustments made to the historical financial information and included in the pro forma historical financial information. This includes responsibility for such internal control as the directors determine are necessary to enable the preparation of the historical financial information and pro forma historical financial information that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the financial information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusions

Historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the historical financial information, as described in section [X] of the prospectus, and comprising:

- the Statement of Financial Performance of ABC Company for the [year(s)/period(s)] ended [insert date];
- the Statement of Financial Position as at [insert date]; and
- the Statement of Cash flows for the [year(s)/period(s)] ended [insert date];

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the company’s adopted accounting policies.⁸³

⁸³ Identify any departures from the recognition and measurement principles contained in the Australian Accounting Standards.

Pro forma historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the pro forma historical financial information being the Statement of Financial Positions as at [insert date] is not presented fairly in all material respects, in accordance with the stated basis of preparation being the recognition and measurement principles contained in Australian Accounting Standards and the company's adopted accounting policies.

Restriction on Use

Without modifying our conclusions, we draw attention to section [X] of the prospectus, which describes the purpose of the financial information prepared, being for inclusion in the prospectus. As a result, the financial information may not be suitable for another purpose.

Liability

[Firm name] has consented⁸⁴ to the inclusion of this report in the prospectus in the form and context in which it is included. The liability of [Firm name] is limited to the inclusion of this report in the prospectus. [Firm name] makes no representation regarding, and has no liability for, any other statement or other material in, or any omissions from, the prospectus. [*Wording amended as necessary for individual Firm practice.*]

Declaration of Interest [or Disclosure of Interest]

[Firm Name] does not have any interest in the outcome of this [transaction]⁸⁵ other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Firm Name]

Date

⁸⁴ Consent is ordinarily provided in a separate consent letter, which can be referenced here.

⁸⁵ Identify the nature of the event(s) or transaction(s), for example, the issue of shares or scheme of arrangement.

Illustration 2: Engagement Circumstances include the following:

- **ABC Company proposes to issue a prospectus in accordance with the *Corporations Act 2001* which includes prospective financial information.**
- **Limited assurance engagement on prospective financial information in the form of a forecast and a pro forma forecast, with unmodified conclusions.**

[Date]⁸⁶

The Directors

ABC Company Limited

Address]

Dear Directors,⁸⁷

Independent Assurance Report on ABC Company forecast and pro forma forecast

We have been engaged to report on the forecast Statement of Financial Performance (“forecast”) and pro forma forecast Statement of Financial Performance (“pro forma forecast”) [for the period ending] 30 June 20X0 of ABC Company Limited [“ABC Company”] for inclusion in section [X] of the [public document]⁸⁸ dated on or about [insert date] and relating to the issue of [X shares/units] in ABC Company.

Expressions and terms 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 Australian Financial Service License (AFSL) under the *Corporations Act 2001*. [Firm name] holds the appropriate AFSL under the *Corporations Act 2001*.

[Insert any background information relating to ABC Company and/or the proposed fundraising deemed appropriate; if any.]

Scope

You have requested [Firm Name] to review the following financial information included in the prospectus:

- the forecast Statement of Financial Performance of ABC Company for the period(s) ending [insert date], as described in section [X] of the prospectus. The directors’ best-estimate assumptions underlying the forecast are described in section [X] of the prospectus. The stated basis of preparation used in the preparation of the forecast is the recognition and measurement principles contained in Australian Accounting Standards and the entity’s adopted accounting policies; and
- the pro forma forecast Statement of Financial Performance of ABC Company for the period(s) ending [insert date], described in section [X] of the prospectus. The pro forma forecast has been derived from ABC Company’s forecast, after adjusting for the effects of the pro forma adjustments described in section [X] of the prospectus. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the forecast and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section [X] of the prospectus, as if those event(s) or transaction(s) had occurred as at the date of the forecast. Due to its nature, the pro forma forecast does not represent the company’s actual or prospective [financial position], [financial performance], and/or [cash flows] [for the period(s) ending/as at] [insert date].

⁸⁶ The date of both the hard copy and electronic version of the report should be the same. See ASIC’s RG 107 *Electronic Prospectuses*.

⁸⁷ Or other title, as appropriate, in the circumstances of the assurance engagement.

⁸⁸ Specify the type of the public document.

Directors' Responsibility

The directors of ABC Company are responsible for the preparation of the forecast [for the period(s) ending/as at] [insert date], including the best-estimate assumptions underlying the forecast. They are also responsible for the preparation of the pro forma forecast for the period ending [insert date], including the selection and determination of the pro forma adjustments made to the forecast and included in the pro forma forecast. This includes responsibility for such internal control as the directors determine are necessary to enable the preparation of the forecast and the pro forma forecast that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express limited assurance conclusions (review) on the forecast and pro forma forecast, the best-estimate assumptions underlying the forecast and pro forma forecast, and the reasonableness of the forecast and pro forma forecast itself, based on our review. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusions

Forecast

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

- the directors' best-estimate assumptions do not provide reasonable grounds for the forecast Statement of Financial Performance of ABC Company [for the year(s)/period(s) ending] [insert date]; and
- in all material respects, the forecast:
 - is not prepared on the basis of the directors' best-estimate assumptions as described in section [X] of the prospectus; and
 - is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the entity's adopted accounting policies; and
- the forecast itself is unreasonable.

Pro Forma Forecast

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

- the directors' best-estimate assumptions used in the preparation of the pro forma forecast Statement of Financial Performance of ABC Company [for the year(s) ended/period(s) ending] [insert date] does not provide reasonable grounds for the pro forma forecast; and
- in all material respects, the pro forma forecast:
 - is not prepared on the basis of the directors' best-estimate assumptions, as described in section [X] of the prospectus; and
 - is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting

Standards, applied to the forecast and the company's adopted accounting policies, and the pro forma adjustments as if those adjustments had occurred as at the date of the forecast; and

- the pro forma forecast itself is unreasonable.

Forecast and Pro Forma Forecast

The forecast and pro forma forecast has been prepared by management and adopted by the directors in order to provide prospective investors with a guide to the potential financial performance of the ABC Company [for the period(s)/year(s) ended] [insert date]. There is a considerable degree of subjective judgement involved in preparing forecasts since it relates to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the forecast and pro forma forecast since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the forecast and pro forma forecast are based relate to future event(s) and/or transaction(s) that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the ABC Company. Evidence may be available to support the directors' best-estimate assumptions on which the forecast is based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in the ABC Company, which are detailed in the prospectus, and the inherent uncertainty relating to the forecast. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in section [X] of the prospectus. The sensitivity analysis described in section [X] of the prospectus demonstrates the impact on the forecast of changes in key best-estimate assumptions. We express no opinion as to whether the forecast will be achieved.

The forecast and pro forma forecast have been prepared by the directors for the purpose of [insert description].⁸⁹ We disclaim any assumption of responsibility for any reliance on this report, or on the forecast or pro forma forecast, to any person other than to the directors, or for any purpose other than that for which it was prepared.⁹⁰ 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 ABC 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.

Liability

[Firm name] has consented to the inclusion of this report in the prospectus in the form and context in which it is included. The liability of [Firm name] is limited to the inclusion of this report in the prospectus. [Firm name] makes no representation regarding, and has no liability for, any other statement or other material in, or any omissions from, the prospectus. [*Wording amended as necessary for individual Firm practice.*]

⁸⁹ Indicate the Directors' purpose for preparing the 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].*"

⁹⁰ When the Independent Assurance 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 forecast to which it relates for any purposes other than that for which it was prepared.*"

Declaration of Interest [or Disclosure of Interest]

[Firm Name] does not have any interest in the outcome of this [transaction]⁹¹ other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Firm Name]

Date

Draft

⁹¹ Identify the nature of the event(s) or transaction(s), for example, the issue of shares or scheme of arrangement.

Illustration 3: Engagement Circumstances include the following:

- **ABC Company has prepared a non-public document as support for a bank loan application, and includes prospective financial information.**
- **Limited assurance engagement on prospective financial information in the form of a forecast, with an unmodified limited assurance conclusion.**

[Date]⁹²

The Directors

[Name of Entity]

[Address]

Dear Directors,⁹³

Independent Assurance Report on ABC Company forecast

We have been engaged to report on the forecast Statement of Financial Performance for the period ending 30 June 20X0 of ABC Company Limited (“ABC Company”) for inclusion in section [X] of the [describe document], dated on or about [insert date], and relating to the issue of [X ordinary shares/units] in ABC Company (“the document”). As agreed in our engagement letter dated [insert date], this report is prepared solely for distribution to users specified in section [X] of the document.

Expressions and terms defined in the document have the same meaning in this report.

[Insert any background information relating to ABC Company and/or the proposed fundraising deemed appropriate; if any.]

Scope

You have requested [Firm Name] to review the ABC Company forecast included in the document. The stated basis of preparation used in the preparation of the forecast is the recognition and measurement principles contained in Australian Accounting Standards and the company’s adopted accounting policies.

Management’s Responsibility

The management of ABC Company is responsible for the preparation of the forecast for the period(s) ended [insert date], including the best-estimate assumptions underlying the forecast. This includes responsibility for such internal control as management determines is necessary to enable the preparation of the forecast that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express limited assurance conclusions (review) on the forecast and pro forma forecast, the best-estimate assumptions underlying the forecast and pro forma forecast, and the reasonableness of the forecast and pro forma forecast itself, based on our review. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

⁹² The date of both the hard copy and electronic version of the report should be the same. See ASIC’s RG 107 *Electronic Prospectuses*.
⁹³ Or other title, as appropriate, in the circumstances of the assurance engagement.

Conclusion

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

- Management's best-estimate assumptions do not provide reasonable grounds for the forecast Statement of Financial Performance of ABC Company [for the year(s)/period(s) ending] [insert date]; and
- in all material respects, the forecast:
 - is not prepared on the basis of management's best-estimate assumptions as described in section [X] of the document; and
 - is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the company's adopted accounting policies; and
- the forecast itself is unreasonable.

The forecast has been prepared by management and adopted by the directors in order to provide prospective investors with a guide to the potential financial performance of the ABC Company [for the period(s)/year(s) ending] ended [date]. There is a considerable degree of subjective judgement involved in preparing a forecast since it relates to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the forecast since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation may be material.

Management's best-estimate assumptions on which the forecast is based relate to future event(s) and/or transaction(s) that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the ABC Company. Evidence may be available to support management's best-estimate assumptions on which the forecast is based; however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to obtain the level of assurance necessary to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly provide a lesser level of assurance on the reasonableness of management's best-estimate assumptions. The limited assurance conclusion expressed in this assurance report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties relation to an investment in the ABC Company, which are detailed in the [public document], and the inherent uncertainty relating to the forecast. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in section [X] of the document. The sensitivity analysis as described in section [X] of the document demonstrates the impact on the forecast of changes in key best-estimate assumptions. We express no opinion as to whether the forecast will be achieved.

The forecast has been prepared by management for [the purpose of]. We disclaim any assumption of responsibility for any reliance on this report, or on the forecast to which it relates to any person other than management, or for any purpose other than that for which it was prepared. 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 ABC 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.

Reliance on this report

This report is addressed to the directors of ABC Company (as responsible party for ABC Company) and [specify].

We have not taken instructions from the above parties (other than [specify]), 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 purposes and do not assume 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 appropriate].

Liability

[Firm name] has consented to the inclusion of this report in the document in the form and context in which it is included. The liability of [Firm name] is limited to the inclusion of this report in the document. [Firm name] makes no representation regarding, and has no liability for, any other statement or other material in, or any omissions from, the document. *[Wording amended as necessary for individual Firm practice.]*

Declaration of Interest [or Disclosure of Interest]

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

Yours faithfully

[Firm Name]

Date

Draft

Illustration 4: Engagement Circumstances include the following:

- **ABC Company has prepared a non-public document as support for a bank loan application, and includes prospective financial information.**
- **The engagement is a mixture of unmodified limited assurance and unmodified reasonable assurance on different elements of the prospective financial information in the form of a forecast.**

[Date]⁹⁴

The Directors

[Name of Entity]

[Address]

Dear Directors,⁹⁵

Independent Assurance Report on ABC Company forecast

We have been engaged to report on the forecast Statement of Financial Performance for the period ending 30 June 20X0 of ABC Company Limited (“ABC Company”) for inclusion in section [X] of the [describe document], dated on or about [insert date], and relating to the issue of [X ordinary shares/units] in ABC Company (“the document”). As agreed in our engagement letter dated [insert date], this report is prepared solely for distribution to users specified in section [X] of the document.

Expressions and terms defined in the document have the same meaning in this report.

[Insert any background information relating to ABC Company and/or the proposed fundraising deemed appropriate; if any.]

Scope

You have requested [Firm Name] to review the ABC Company forecast included in the document. The stated basis of preparation used in the preparation of the forecast is the recognition and measurement principles contained in Australian Accounting Standards and the company’s adopted accounting policies.

Management’s Responsibility

The management of ABC Company is responsible for the preparation of the forecast for the period(s) ended [insert date], including the best-estimate assumptions underlying the forecast. This includes responsibility for such internal control as management determines is necessary to enable the preparation of the forecast that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility, based on our work performed is to express limited assurance on the best-estimate assumptions underlying the forecast and on the reasonableness of the forecast itself, and reasonable assurance on whether the forecast is prepared based on those assumptions and the stated basis of preparation. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

⁹⁴ The date of both the hard copy and electronic version of the report should be the same. See ASIC’s RG 107.

⁹⁵ Or other title, as appropriate, in the circumstances of the assurance engagement.

Conclusion

- Based on our limited assurance procedures, nothing has come to our attention which causes us to believe that management's best-estimate assumptions do not provide reasonable grounds for the forecast Statement of Financial Performance of ABC Company [for the year(s)/period(s) ending] [insert date];
- based on our reasonable assurance procedures, the forecast is, in all material respects, prepared on the basis of management's best-estimate assumptions as described in section [X] of the document; and is presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the company's adopted accounting policies; and
- based on our limited assurance procedures, nothing has come to our attention which causes us to believe that the forecast itself is unreasonable.

The forecast has been prepared by management and adopted by the directors in order to provide prospective investors with a guide to the potential financial performance of the ABC Company [for the period(s)/year(s) ending] ended [date]. There is a considerable degree of subjective judgement involved in preparing a forecast since it relates to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the forecast since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation may be material.

Management's best-estimate assumptions on which the forecast is based relate to future event(s) and/or transaction(s) that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the ABC Company. Evidence may be available to support management's best-estimate assumptions on which the forecast is based; however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to obtain the level of assurance necessary to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly provide a lesser level of assurance on the reasonableness of management's best-estimate assumptions. The limited assurance conclusion expressed in this assurance report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in the ABC Company, which are detailed in the [public document], and the inherent uncertainty relating to the forecast. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in section [X] of the document. The sensitivity analysis as described in section [X] of the document demonstrates the impact on the forecast of changes in key best-estimate assumptions. We express no opinion as to whether the forecast will be achieved.

The forecast has been prepared by management for [the purpose of]. We disclaim any assumption of responsibility for any reliance on this report, or on the forecast to which it relates to any person other than management, or for any purpose other than that for which it was prepared. 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 ABC 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.

Reliance on this report

This report is addressed to the directors of ABC Company (as responsible party for ABC Company) and [specify].

We have not taken instructions from the above parties (other than [specify]), 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 purposes and do not assume 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 appropriate].

Liability

[Firm name] has consented to the inclusion of this report in the document in the form and context in which it is included. The liability of [Firm name] is limited to the inclusion of this report in the document. [Firm name] makes no representation regarding, and has no liability for, any other statement or other material in, or any omissions from, the document. [*Wording amended as necessary for individual Firm practice.*]

Declaration of Interest [or Disclosure of Interest]

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

Yours faithfully

[Firm Name]

Date

Draft