

30 September 2010

Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017 USA

Dear James,

***Proposed International Standard on Assurance Engagements ISAE 3420 Assurance Reports
on the Process to Compile Pro Forma Financial Information Included in a Prospectus***

The Australian Auditing and Assurance Standards Board (AUASB) has considered the Proposed International Standard on Assurance Engagements ISAE 3420, “*Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*”, issued in April 2010 by the International Auditing and Assurance Standards Board (IAASB).

The AUASB again commends the IAASB on the consistency of the application of the clarity drafting conventions. However, with regard to the proposals in the IAASB exposure draft, the AUASB understands that Australian assurance practitioners do not generally perform many engagements to report on the process to compile pro forma financial information. Accordingly, it is doubtful that the AUASB would adopt the proposed ISAE as an Australian Standard on Assurance Engagements (ASAE), on the basis of its limited applicability to the Australian marketplace.

Notwithstanding the above, our comments on matters covered in the Explanatory Memorandum are included in the Attachment to this letter.

Should you have any queries on this submission, please do not hesitate to contact either myself on +61 3 8080 7440 or email rmifsud@auasb.gov.au, or Ms Susan Fraser, Senior Project Manager on +61 3 8080 7437 or email sfraser@auasb.gov.au.

Yours sincerely,

Richard Mifsud
Executive Director

Attachment

Attachment**AUASB COMMENTS****Request for Specific Comments**

Q1 In relation to respondents' roles and responsibilities, would respondents adopt or apply the proposed ISAE, or request an engagement in accordance therewith, if it became effective? If not, please explain why (in this regard, respondents are asked to also consider question 4 below).

The AUASB is an independent statutory board of the Australian Government whose mandate includes the formulation of Auditing Standards for the purposes of Australian corporations legislation, and auditing and assurance standards for other purposes. It has, as part of its Strategic Direction, to “participate in and contribute to the development of a single set of auditing standards for world-wide use”.

The AUASB notes that the proposed ISAE is framed from a European Union (EU) perspective, in terms of establishing requirements covering compiled pro forma financial information that are compatible with existing EU practices. It also deals only with reasonable assurance engagements, even though limited assurance engagements are permitted in ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and the *International Framework for Assurance Engagements*, which establishes the basic principles for the conduct of all assurance engagements. The AUASB understands that Australian assurance practitioners do not currently perform many engagements to report on the process to compile pro forma financial information and that when they do the majority of engagements are limited assurance engagements. Consequently, the AUASB strongly recommends that the proposed ISAE's scope, application, requirements, and application and other explanatory material sections (including Appendices) be widened to include limited assurance engagements. This would ensure that the proposed ISAE (used as the underlying standard for the equivalent ASAE) has the widest potential application to the assurance practitioners in the Australian marketplace. It should be noted that Australian assurance practitioners ordinarily undertake limited or reasonable assurance engagements to report on the pro forma financial information itself, rather than the process to compile such information.

If left in its current scope, it is doubtful that the AUASB would adopt the proposed ISAE as an Australian Standard on Assurance Engagements (ASAE), on the basis of its limited applicability to the Australian marketplace.

The AUASB is aware that the IAASB has a Task Force currently considering revisions to ISRE 2400 *Engagements to Review Financial Statements*, and that issues raised by the Task Force in the revision process have implications for all limited assurance engagements. Given that the AUASB strongly suggests that this proposed ISAE also address limited assurance engagements in respect of the process to compile pro forma financial information, we understand that any relevant revisions to ISRE 2400's requirements and related application and other explanatory material (for example the nature, timing and extent of procedures required for a review, and the wording of the review conclusion) would need to be consequently reflected in, and consistent with this proposed ISAE.

Q2 Do respondents believe that the work effort set out in the proposed ISAE is sufficient and appropriate to enable the practitioner to express an opinion as to whether the process to compile the PFI has, in all material respects, been applied in accordance with the applicable criteria?

Yes, the AUASB considers the work effort is sufficient and appropriate.

Q3 Do respondents believe that it is clear from the illustrative practitioner’s report in the Appendix to the proposed ISAE that the practitioner is reporting on the process to compile the PFI and not on the PFI itself? Paragraph A52 of the proposed ISAE, in particular, provides two alternatives for the opinion in relation to the process, i.e.

Whether the process to compile the PFI has, in all material respects, been applied in accordance with the applicable criteria; or

Whether the PFI has been properly compiled on the basis stated.

The AUASB considers that the opinion wording should be limited to the first alternative set out in paragraph A52 of the proposed ISAE: “*whether the process to compile the PFI has, in all material respects, been applied in accordance with the applicable criteria*” as this is consistent with the opinion wording in ISAE 3000. The AUASB further notes that alternative two detailed in paragraph A52 - “*whether the PFI has been properly compiled on the basis stated*”, has the potential to be confused for the assurance practitioner expressing an opinion on the pro forma financial information itself. Consequently, the AUASB recommends that alternative two should be removed from the proposed ISAE altogether.

The AUASB considers the wording in the illustrative practitioner’s report in the Appendix to the proposed ISAE is clear that the assurance practitioner is reporting on the process to compile the PFI and not the PFI itself.

Q4 As the proposed ISAE is designed to convey assurance on the process to compile the PFI, do respondents believe that it would be desirable for the IAASB to also develop a separate standard on reporting on the PFI itself? If yes:

(a) What do respondents believe would be the work effort implications in undertaking engagements to report on the PFI itself? In particular, how would such work effort differ from that specified in the proposed ISAE?

(b) Should both reasonable assurance and limited assurance on the PFI be addressed? If so, how should the nature and extent of the practitioner’s work effort be differentiated between a reasonable assurance engagement and a limited assurance engagement to report on the PFI?

Yes, the AUASB considers it necessary for the development of a separate assurance standard covering reporting on pro forma financial information (“PFI”).

The AUASB is currently developing an Australian Standard on Assurance Engagements in connection with a proposed corporate transaction which includes within its scope the examination of pro forma financial information that is included in, or in connection with, a public document (for example a proposed fundraising, takeover, and scheme or arrangement). This proposed ASAE will replace existing Australian pronouncements: Auditing Standard AUS 804 *The Audit of Prospective Financial Information* and Auditing Guidance Statement AGS 1062 *Reporting in Connection with Proposed Fundraisings*.

In respect of the perceived work effort implications of PFI assurance engagements, the AUASB considers that such engagements, by their nature and extent of procedures performed, would ordinarily be conducted in terms of issuing a limited assurance conclusion and has therefore framed its proposed ASAE in terms of such engagements. The AUASB notes however that there is no existing Australian legal or regulatory requirements precluding the issuance of a reasonable assurance conclusion on PFI and therefore recommends that a proposed ISAE on PFI allow for both forms of assurance conclusion. The AUASB would be pleased to assist the IAASB in the development of such a standard, given the AUASB's already commenced project in this area.

In terms of differentiating a reasonable assurance engagement from a limited assurance engagement in respect of PFI assurance engagements, the AUASB considers that in the first instance, the agreed engagement terms will set the type of assurance engagement; with the nature, timing, and extent of assurance procedures selected by the assurance practitioner reflecting their accepted level of assurance engagement risk. Concluding on the assurance procedures performed provides the assurance practitioner with the basis for a positive form (reasonable assurance) or negative form (limited assurance) of expression of the assurance practitioner's conclusion. This is consistent with the *International Framework for Assurance Engagements* and its Australian equivalent, *Framework for Assurance Engagements*; the suite of IAASB and Australian issued *Clarity* Auditing Standards and the suite of IAASB and Australian issued Standards on Assurance Engagements.

Request for Comments on Other Matters

***Issuers, Investors and Regulators*—Recognizing that PFI included in a prospectus is of particular interest and relevance to issuers, investors (including sponsoring banks, lead managers, underwriters, analysts, and institutional and retail investors), and regulators (including securities exchanges), the IAASB invites respondents from these constituencies to comment on the proposed ISAE and, in particular:**

- (a) The content of the illustrative practitioner's report; and**
- (b) Whether the proposed ISAE will contribute to enhancing user confidence in how the PFI is produced.**

Not applicable – the AUASB is a standard-setting body.

Developing Nations - Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed ISAE in a developing nation environment.

Not applicable to Australia.

***Translations*—Recognizing that many respondents may intend to translate the final ISAE for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISAE.**

The AUASB advises that there are no translation issues in Australia, other than that noted in the AUASB's Question 1 response above.

***Effective Date*—Recognizing that the proposals in the proposed ISAE do not establish fundamentally new assurance principles and that the subject matter of the proposed ISAE does not represent a fundamentally new area of practice for the profession, and given the public interest need to harmonize inconsistent practice internationally as soon as practicable, the IAASB believes that an appropriate effective date for the standard would be 18 months after the date of final approval of the standard. The IAASB welcomes comment on whether this lead time relative to the effective date would provide a sufficient period to support effective implementation of the standard.**

The AUASB has no issues with the proposed effective date.

Other comments of the AUASB

The AUASB has the following additional comment on the proposed ISAE:

- (1) Requirement paragraph 21 (within section titled: Evaluating the Process Applied by the Responsible Party to Compile the Pro Forma Financial Information) – “...*If the assurance practitioner is unable to agree shall determine the implications for the practitioners report.*” The related application and other explanatory material at paragraphs A17 to A19 inclusive do not provide assurance practitioners with examples of possible implications for the assurance practitioner's report to consider when faced with this situation. The AUASB therefore recommends that additional application and other explanatory material is included in this section to give examples of possible implications for the assurance practitioner's report. Suggested application and other explanatory material wording is as follows:

“Such implications for the assurance practitioner's report may include considering the inclusion of a qualified opinion, or a disclaimer of opinion, as the assurance practitioner has not been able to obtain sufficient appropriate evidence regarding the matter.”

- (2) Definitions (paragraph 10) – The AUASB recommends including a definition for “compiled pro forma financial information” to ensure clarity in meaning of a term which is used extensively in the proposed ISAE.