The Audit of Prospective Financial Information

Prepared by the Auditing & Assurance Standards Board of the Australian Accounting Research Foundation

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AUDITING STANDARD
AUS 804 “THE AUDIT OF PROSPECTIVE FINANCIAL INFORMATION”

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Introduction

.01 The purpose of this Auditing Standard (AUS) is to establish standards and provide guidance on engagements to audit and report on prospective financial information prepared using best-estimate and/or hypothetical assumptions. For engagements to review prospective financial information, refer to AUS 902 “Review of Financial Reports”.

.02 In an engagement to audit prospective financial information, the auditor should obtain sufficient appropriate audit evidence as to whether:

(a) management’s best-estimate assumptions on which the prospective financial information is based are reasonable for the preparation of the prospective financial information;

(b) the prospective financial information is properly prepared on the basis of the assumptions;

(c) the prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions; and

(d) the prospective financial information is prepared on a consistent basis with historical financial reports, using appropriate accounting principles.

.03 This AUS does not apply to the audit of prospective financial information expressed in general or narrative terms, such as that found in management’s discussion and analysis in an entity’s annual report, though many of the procedures outlined herein may be suitable for such an audit.

.04 “Prospective financial information” means financial information based on assumptions about events that may occur in the future and possible actions by an entity. It is highly subjective in nature and its preparation requires the exercise of considerable judgement. Prospective financial information can be in the form of a forecast, or projection or a combination of both, for example a one year forecast plus a five year projection.

.05 A “forecast” means prospective financial information prepared on the basis of assumptions as to future events which management
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expects to take place, and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).

.06 A “projection” means prospective financial information prepared on the basis of:

(a) hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or

(b) a mixture of best-estimate and hypothetical assumptions.

Such information illustrates the possible consequences, as of the date the information is prepared, if the events and actions were to occur (a “what-if” scenario).

.07 Prospective financial information can include financial reports or one or more elements of financial reports and may be prepared:

(a) as an internal management tool, for example to assist in evaluating a possible capital investment; or

(b) for the distribution to third parties in, for example:

(i) a prospectus to provide potential investors with information about future expectations;

(ii) an annual report to provide information to shareholders, regulatory bodies and other interested parties; and

(iii) a document for the information of lenders which may include, for example cash flow forecasts.

.08 Management is responsible for the preparation and presentation of the prospective financial information, including the identification and disclosure of the underlying assumptions. The auditor may be asked to audit and report on the prospective financial information to enhance its credibility, whether it is intended for use by third parties or for internal purposes.

The Auditor’s Assurance regarding Prospective Financial Information

.09 Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be
available to support the underlying assumptions, such evidence is itself generally future oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the audit of historical financial information. The auditor is therefore not in a position to express an opinion as to whether the results shown in the prospective financial information will be achieved.

.10 Further, given the nature of the evidence available in assessing the reasonableness of the assumptions on which the prospective financial information is based, it may be difficult for the auditor to obtain a level of satisfaction sufficient to express a positive opinion that the assumptions are free of material misstatement. Consequently, in this AUS, when reporting on the reasonableness of management’s assumptions, the auditor:

(a) ordinarily provides only a moderate level of assurance by issuing a statement of negative assurance on best-estimate assumptions. This does not imply that the auditor can limit the procedures performed to that of a review engagement. The auditor is required to perform audit procedures to obtain sufficient appropriate audit evidence to issue a statement of negative assurance on the reasonableness of management’s assumptions; and

(b) does not express an opinion on hypothetical assumptions.

Acceptance of Engagement

.11 Before accepting an engagement to audit prospective financial information, the auditor would consider, amongst other things:

(a) the intended use of the information;

(b) whether the information will be used by persons with whom the preparer is or is not negotiating directly;

(c) the nature of the assumptions, that is whether they are best-estimate or hypothetical assumptions;

(d) the elements to be included in the information;

(e) the period covered by the information; and

(f) whether any prior period financial information was subject to a modified audit opinion and the nature of the modification.
The auditor should not accept an engagement when the assumptions are clearly unrealistic or the auditor believes that the prospective financial information will be inappropriate for its intended use.

In deciding whether to accept an engagement, the auditor would consider matters such as:

(a) whether the time available to complete the engagement is adequate;
(b) the economic substance and viability of the entity and/or transaction or project of the entity;
(c) the economic environment and the industry in which the entity operates;
(d) the stability of the entity’s business;
(e) the financial strength of the entity;
(f) the reputation of management responsible for the assumptions underlying the prospective financial information;
(g) the past record of management in the preparation of prospective financial information;
(h) the engagement team’s experience with the business and the industry in which the entity operates and with reporting on prospective financial information;
(i) the governing body’s understanding of its responsibility in respect of the underlying assumptions; and
(j) the availability of data derived from third parties to support the assumptions, such as industry statistics.

If the auditor concludes that one or more of these factors is unsatisfactory, consideration needs to be given to the significance of the matters.

In some circumstances an engagement would not be accepted because of an unsatisfactory response to one of the matters in AUS 804.13 (for example if there is insufficient time to adequately complete the engagement), in other cases a combination of matters may indicate that the engagement is impracticable. In other
circumstances, the auditor may accept the engagement, but use the knowledge of an unsatisfactory matter in determining the nature, timing and extent of procedures to be applied to obtain sufficient appropriate audit evidence to form an opinion on the prospective financial information (for example, if the entity’s business is unstable or management has a poor record in preparing prospective financial information).

.15 In accordance with AUS 204 “Terms of Audit Engagements”, it is necessary for the auditor and the client to agree on the terms of the engagement. It is in the interest of both the entity and the auditor that the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. An engagement letter would address the matters in AUS 804.11, and set out management’s responsibilities for the assumptions and for providing the auditor with all relevant information and source data in developing the assumptions.

Knowledge of the Business

.16 The auditor should obtain a sufficient level of knowledge of the business to be able to evaluate whether all significant assumptions required for the preparation of the prospective financial information have been identified. The auditor would also need to become familiar with the entity’s process for preparing prospective financial information, for example, by considering:

(a) the internal controls over the system used to prepare prospective financial information and the expertise and experience of those persons preparing the prospective financial information;

(b) the nature of the documentation prepared by the entity supporting management’s assumptions;

(c) the extent to which statistical, mathematical and computer-assisted techniques are used and the reliability thereof;

(d) the methods used to develop and apply assumptions; and

(e) the accuracy of prospective financial information prepared in prior periods and the reasons for significant variances.

.17 The knowledge and understanding of the entity required by the auditor would have been acquired by an auditor who has carried out an audit or review of the entity’s financial reports in recent previous
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periods. Where this form of engagement is undertaken by an auditor who does not have the knowledge acquired from recent previous audits, that auditor needs to be satisfied that sufficient knowledge and understanding can be obtained to meet the requirements of this AUS.

.18  The auditor should consider the extent to which reliance on the entity’s historical financial information is justified. The auditor requires a knowledge of the entity’s historical financial information to assess whether the prospective financial information has been prepared on a basis consistent with the historical financial information and to provide a historical yardstick for considering management’s assumptions. The auditor will need to establish, for example, whether relevant historical information was audited or reviewed and whether acceptable accounting principles were used in its preparation.

.19  If the audit or review report on the prior period historical financial information was qualified, or if the entity is in a start-up phase, the auditor would consider the surrounding facts and the impact on the approach to the audit of the prospective financial information.

Period Covered

.20  The auditor should consider the period of time covered by the prospective financial information. Since assumptions become more speculative as the length of the period covered increases, as that period lengthens, the ability of management to make best-estimate assumptions decreases. The period would not extend beyond the time for which management has a reasonable basis for the assumptions. The following are some of the factors that are relevant to the auditor’s consideration of the period of time covered by the prospective financial information:

(a)  the operating cycle, for example in the case of a major construction project the time required to complete the project may dictate the period covered;

(b)  the degree of reliability of assumptions, for example if the entity is introducing a new product, the prospective period covered could be short and broken into small segments, such as weeks or months. Alternatively, if the entity’s sole business is owning property under long-term lease, a relatively long prospective period might be reasonable; and

(c)  the needs of users, for example prospective financial information may be prepared in connection with an
application for a loan, for the period of time required to generate sufficient funds for repayment. Alternatively, the information may be prepared for investors in connection with the sale of debentures to illustrate the intended use of the proceeds in the subsequent period.

Audit Procedures

.21 When determining the nature, timing and extent of audit procedures, the auditor’s considerations should include:

(a) the likelihood of material misstatement;
(b) knowledge obtained during any previous engagements;
(c) management’s competence regarding the preparation of prospective financial information;
(d) the extent to which the prospective financial information is affected by management’s judgement; and
(e) the adequacy and reliability of the underlying data.

.22 The auditor would assess the source and reliability of the evidence supporting management’s best-estimate assumptions. Sufficient appropriate audit evidence supporting such assumptions would be obtained from internal and external sources, including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity’s capacity.

.23 The auditor would consider whether, when hypothetical assumptions are used, all significant implications of the assumptions have been taken into consideration. For example if sales are assumed to grow beyond the entity’s current plant capacity, the prospective financial information will need to include the necessary investment in the additional plant capacity or the costs of alternative means of meeting the anticipated sales, such as by sub-contracting production.

.24 Although evidence supporting hypothetical assumptions need not be obtained, the auditor would need to be satisfied that they are consistent with the purpose of the prospective financial information and that there is no reason to believe they are clearly unrealistic.

.25 The auditor will need to be satisfied that the prospective financial information is properly prepared from management’s assumptions by, for example, making clerical checks such as recomputations and
reviewing internal consistency, that is, the actions management 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.

.26 The auditor would focus on the extent to which those areas that are particularly sensitive to variation will have a material effect on the results shown in the prospective financial information. This will influence the extent to which the auditor will seek appropriate audit evidence. It will also influence the auditor’s evaluation of the appropriateness and adequacy of disclosure.

.27 When engaged to audit one or more elements of prospective financial information, such as an individual financial statement, it is important that the auditor consider the interrelationship of other elements in the financial report.

.28 When any elapsed portion of the current period is included in the prospective financial information, the auditor would consider the extent to which procedures need be applied to the historical information. Procedures will vary depending on the circumstances, for example, how much of the prospective period has elapsed.

.29 The auditor should obtain written representations from management regarding the intended use of the prospective financial information, the completeness of significant management assumptions and management’s acceptance of its responsibility for the prospective financial information. These representations may be in the form of relevant minutes of meetings of the governing body, a written representation from management or a published statement by the management acknowledging such responsibility.

Presentation and Disclosure

.30 The auditor should assess the appropriateness of the presentation and disclosure of the prospective financial information and the underlying assumptions. In addition to any relevant statutory requirements, regulations, Accounting Standards or UIG Consensus Views, the auditor would consider whether:

(a) the presentation of prospective financial information is informative and not misleading;

(b) the accounting policies are clearly disclosed in the notes to the prospective financial information;
(c) the assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether assumptions represent management’s best-estimates or are hypothetical. When assumptions are made in areas that are material and are subject to a high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed;

(d) the date at which the prospective financial information was prepared is disclosed. The governing body needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time;

(e) the basis of establishing points in a range is clearly indicated, and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range; and

(f) any change in accounting policy since the most recent historical financial report is disclosed along with the reason for the change and its effect on the prospective financial information.

Audit Reporting

.31 The report by an auditor on an audit of prospective financial information should contain the following, ordinarily in the following order:

(a) the title;

(b) the addressee;

(c) a section describing the audit scope which includes the following:

   (i) identification of the prospective financial information;

   (ii) a statement that the governing body is responsible for the prospective financial information, including the assumptions on which it is based;

   (iii) a statement that the auditor has conducted an independent audit of the prospective financial
information in order to express an opinion thereon to the addressee;

(iv) a statement that the audit has been conducted in accordance with Australian Auditing Standards;

(v) in rare and exceptional circumstances, when a departure from a basic principle or essential procedure may be necessary, as indicated in Miscellaneous Professional Statement APS 1.1 “Conformity with Auditing Standards”, the statement required under paragraph (iv) should provide details of the particular basic principle(s) or essential procedure(s) that has been departed from together with the justification for the departure. As indicated in APS 1.1, this statement is not required where the basic principle or essential procedure relates to a matter that is not material or where the Auditing Standard contains an exceptional circumstance departure provision in the black-lettering. (For example, refer AUS 504.02 “Confirmation of Receivables”);

(vi) a statement that the auditor’s procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the forecast or projection and the evaluation of accounting policies;

(vii) a statement indicating that these procedures have been undertaken to form an opinion as to whether:

- anything has come to the auditor’s attention which causes the auditor to believe that management’s assumptions do not provide a reasonable basis for the preparation of the forecast or projection; and

- in all material respects, the forecast or projection is properly prepared on the basis of the assumptions and is presented fairly in accordance with the identified reporting framework, and on a basis consistent with the accounting policies adopted and disclosed by the
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entity in its previous financial report so as to present a view of the entity which is consistent with the auditor’s understanding of the entity’s past, current and future operations; and

(viii) a statement that the audit opinion has been formed on the basis identified in the scope section above;

(d) a section expressing the auditor’s opinion in respect of whether:

(i) management’s best-estimate assumptions are reasonable for the preparation of the prospective financial information;

(ii) the prospective financial information is properly prepared on the basis of the assumptions; and

(iii) the prospective financial information is presented fairly in accordance with an identified reporting framework and, where appropriate, on a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report;

(e) appropriate caveats concerning the achievability of the results indicated by the prospective financial information;

(f) the auditor’s signature;

(g) the auditor’s address; and

(h) the date of the audit report.

The attached Appendix contains examples of audit reports on prospective financial information.

Such a report would state that:

(a) the actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material. Likewise, when the prospective financial information is expressed as a range, it would be stated that
there can be no assurance that actual results will fall within the range; and

(b) in the case of a projection, the prospective financial information has been prepared for (state purpose), using a set of assumptions that include hypothetical assumptions about future events and management’s actions that are not necessarily expected to occur. Consequently, readers are cautioned that the prospective financial information ought not be used for purposes other than that described.

.33 The audit report would be dated as of the date the auditor signs that report. The auditor has no responsibility to update the audit report except when the auditor becomes aware of facts which were not known at that date and which may require adjustment of, or disclosure in, the prospective financial information. In these circumstances, the auditor would refer to AUS 706 “Subsequent Events”.

.34 When reporting on the reasonableness of best-estimate assumptions, the auditor would ordinarily issue a statement of negative assurance due to the nature of the evidence available. However, when in the auditor’s judgement, sufficient appropriate audit evidence has been obtained, the auditor is not precluded from expressing a positive opinion on the assumptions.

.35 The auditor does not express an opinion on hypothetical assumptions because, by their nature, sufficient appropriate audit evidence is not available to support those assumptions.

.36 Where the prospective financial information is prepared on the basis of best-estimate and hypothetical assumptions, the auditor reports on the best-estimate assumptions and the prospective financial information on the presumption that the hypothetical assumptions will occur.

.37 When the auditor believes that the presentation and disclosure of the prospective financial information is not adequate, the auditor should express an “except for” or an adverse opinion on the prospective financial information, as appropriate, setting out the reasons in a separate qualification section in the audit report. An example would be where the financial information fails to disclose the consequences of any assumptions which are highly sensitive.

.38 When the auditor believes that one or more significant assumptions do not provide a reasonable basis for the prospective financial information prepared on the basis of best-estimate assumptions, or
that one or more significant assumptions do not provide a reasonable basis for the prospective financial information given the hypothetical assumptions, the auditor should express an adverse opinion, setting out the reasons in a separate qualification section in the audit report.

39 When the audit is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, the auditor should express an “except for” or an inability to form an opinion on the basis of a limitation on the scope of the audit.

40 The duty of the auditor is to convey information, not merely arouse enquiry. Whenever the auditor expresses a qualified opinion, the audit report should, in accordance with AUS 702 “The Audit Report on a General Purpose Financial Report”, contain:

(a) a clear description of all the substantive reasons therefor;

(b) a quantification of the effects or possible effects on the amounts and other disclosures contained in, or omitted from, the financial report; or

(c) if the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefor.

Operative Date

41 This AUS, which incorporates amendments made by AUS/AGS Omnibus 3 “Miscellaneous Amendments to AUSSs and AGSSs”, is operative from July 2002. This version of AU 804 supersedes AUS 804 “The Audit of Prospective Financial Information”, as revised in April 1998.

Compatibility with International Standards on Auditing

42 Except for the matters noted below, the basic principles and essential procedures of this AUS and International Standard on Auditing ISA 810, The Examination of Prospective Financial Information, are consistent in all material respects:

(a) ISA 810 remains silent as to whether the auditor should report that the prospective financial information has, or has not been prepared on a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report. When relevant, the Auditing & Assurance
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Standards Board considers it appropriate to report on this matter as this provides useful information to the addressee of the audit report;

(b) AUS 804 requires the auditor to include a scope section in the audit report to explain the nature and extent of the auditor’s work and the degree of assurance provided. ISA 810 does not contain an equivalent requirement. The Auditing & Assurance Standards Board is of the view that as many members of the community do not have an adequate appreciation of the role and responsibilities of the auditor, the inclusion of a scope section will help clarify the audit function;

(c) AUS 804 paragraph 30 contains a basic principle/essential procedure which requires the auditor to assess the appropriateness of the presentation and disclosure of the prospective financial information and the underlying assumptions. ISA 810 only provides guidance on the matters to consider when assessing the presentation and disclosure. The Auditing & Assurance Standards Board is of the view that given the nature of prospective information, and the fact that such information is often prepared without a formal reporting framework in place, the auditor should assess the appropriateness of the presentation and disclosure; and

(d) ISA 810 allows the auditor to withdraw from an engagement if the auditor believes:

(i) the presentation and disclosure of the prospective financial information is not adequate;

(ii) one or more significant assumptions do not provide a reasonable basis for the best-estimate assumptions, or that one or more significant assumptions do not provide a reasonable basis given the hypothetical assumptions;

(iii) the audit is affected by conditions that preclude one or more procedures considered necessary; or

(iv) the assumptions are clearly unrealistic or that the prospective financial information will be inappropriate for its intended use.
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AUS 804 does not follow that approach. Rather this AUS requires the auditor to qualify the audit report in these circumstances. The Auditing & Assurance Standards Board is of the view that once the auditor accepts an engagement, the auditor has a responsibility to fulfil the contract by reporting to the client.
Example 1: Best-estimate Assumptions – a Forecast, where a Statement of Negative Assurance is Issued on the Reasonableness of Management’s Assumptions

INDEPENDENT AUDIT REPORT

To [addressee]

Scope

We have audited the forecast of [entity] for the [period] as set out on pages ... to ... . The [members of the governing body] are responsible for the preparation and presentation of the forecast and the information contained therein, including the assumptions as set out in note ... on which the forecast is based. We have conducted an independent audit of the forecast in order to express an opinion on it to [addressee].

The forecast has been prepared for distribution to [addressee] for the purpose ... . 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 to [addressee] or for any purpose other than that for which it was prepared.1

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the forecast and the evaluation of accounting policies. These procedures have been undertaken to form an opinion whether anything has come to our attention which causes us to believe that management’s assumptions as set out in note ... do not provide a reasonable basis for the preparation of the forecast, and whether, in all material respects, the forecast is properly prepared on the basis of the assumptions as set out in note ... and is presented fairly in accordance with ...2 (and on a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report for the [period] ended

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1 When the audit report has been prepared for users beyond the addressee, this paragraph should be amended to state: “The forecast has been prepared for the purpose... 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.”

2 Indicate the reporting framework.
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[date])3 so as to present a view of the [entity] which is consistent with our understanding of the [entity’s] past, current and future operations.

Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions on which prospective financial information is based, such evidence is generally future oriented and therefore speculative in nature. Given the nature of the evidence available in assessing the reasonableness of management’s assumptions, we are not in a position to obtain the level of assurance necessary to express a positive opinion on those assumptions. Accordingly, we provide a lesser level of assurance on the reasonableness of management’s assumptions4.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions as set out in note ... do not provide a reasonable basis for the preparation of the forecast.

In our opinion,

(a) the forecast is properly prepared on the basis of the assumptions as set out in note ... ; and

(b) the forecast is presented fairly in accordance with:

(i) ...5; and

(ii) on a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report for the [period] ended [date]6 (except for the changes in accounting policies as disclosed in note ...)7.

Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, we express no opinion as to whether the forecast will be achieved.

3 where appropriate.
4 where appropriate.
5 indicate the reporting framework.
6 where appropriate.
7 where appropriate.

- 20 -
INDEPENDENT AUDIT REPORT

To [addressee]

Scope

We have audited the projection of [entity] for the [period] as set out on pages ... to ... . The [members of the governing body] are responsible for the preparation and presentation of the projection and the information contained therein, including the assumptions as set out in note ... on which the projection is based. We have conducted an independent audit of the projection in order to express an opinion on it to [addressee].

The projection has been prepared for distribution to [addressee] for the purpose ... . We disclaim any assumption of responsibility for any reliance on this report or on the projection to which it relates to any person other than to [addressee] or for any purpose other than that for which it was prepared8. In addition, (as [the entity] is in a start-up phase)9 the projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management’s actions that are not necessarily expected to occur. Consequently, readers are cautioned that this projection may not be appropriate for purposes other than that described above.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the projection and the evaluation of accounting policies. Because hypothetical assumptions relate to future events and management actions which are not necessarily

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8 When the projection has been prepared for users beyond the addressee, this paragraph should be amended to state:
   “The projection has been prepared for the purpose... We disclaim any assumption of responsibility for any reliance on this report or on the projection to which it relates for any purpose other than that for which it was prepared. In addition, (as [the entity] is in a start-up phase) the projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management’s actions that are not necessarily expected to occur. Consequently, readers are cautioned that this projection may not be appropriate for purposes other than that described above.”

9 where appropriate.
expected to take place, we are not in a position to, and do not express an opinion on the hypothetical assumptions. The procedures have been undertaken to form an opinion whether (anything has come to our attention which causes us to believe that management’s best-estimate assumptions as set out in note ... do not provide a reasonable basis for the preparation of the projection given the occurrence of the hypothetical assumptions, and whether)10, in all material respects, the projection is properly prepared on the basis of the assumptions as set out in note ... and is presented fairly in accordance with ...11 (and on a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report for the [period] ended [date])12 so as to present a view of the [entity] which is consistent with our understanding of the [entity’s] current and future operations.

(Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the best-estimate assumptions on which prospective financial information is based, such evidence is generally future oriented and therefore speculative in nature. Given the nature of the evidence available in assessing the reasonableness of management’s best-estimate assumptions, we are not in a position to obtain the level of assurance necessary to express a positive opinion on those assumptions. Accordingly, we provide a lesser level of assurance on the reasonableness of management’s assumptions)13.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

(Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the best-estimate assumptions as set out in note ... do not provide a reasonable basis for the preparation of the projection, given the occurrence of the hypothetical assumptions)14.

In our opinion,

(a) the projection is properly prepared on the basis of the assumptions as set out in note ... ; and

10 include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.
11 indicate the reporting framework.
12 where appropriate.
13 include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.
14 include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.
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(b) the projection is presented fairly in accordance with:

(i) ...\(^{15}\); and

(ii) a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report for the [period] ended [date]\(^{16}\) (except for the changes in accounting policies as disclosed in note ...\(^{17}\)).

Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material. Accordingly, we express no opinion as to whether the projection will be achieved.

Date Firm
Address Partner

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15 indicate the reporting framework.
16 where appropriate.
17 where appropriate.