

## **ASAE 3450**

(April 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**

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### **Contact Details**

Auditing and Assurance Standards Board    Phone: (03) 8080 7400  
Level 7, 600 Bourke Street                      Fax: (03) 8080 7450  
Melbourne Victoria 3000                      E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)  
AUSTRALIA

**Postal Address:**  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007  
AUSTRALIA

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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.

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## **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.

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**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 ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied.

## **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 certain financial information related to a corporate fundraising, or prospective financial information prepared for other purposes.
4. In some circumstances, the assurance practitioner may also have separately agreed to further reporting responsibilities in respect of

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the corporate fundraising, such as the due diligence committee. Such responsibilities are outside the scope of this ASAE.<sup>1</sup>

5. The assurance practitioner may be requested to provide assurance on a single type of financial information or a combination. Furthermore, the financial information may relate to a single entity or multiple entities (in the case of a merger or acquisition transaction). The types of financial information covered by this ASAE include historical financial information (with a subset being pro forma historical information) and prospective (with a subset being a pro forma forecast). Prospective financial information that includes a projection or material hypothetical assumptions is not covered by this ASAE. Historical financial information is included in this ASAE for completeness as it may be included as part of the assurance engagement reporting, along with non-historical financial information.

6. This ASAE sets out the requirements and related application and other explanatory material for each type of financial information in three distinct, stand-alone sections:

- (a) Section A – Historical financial information; and
- (b) Section B – Prospective financial information;

however it is acknowledged that assurance engagements covered by this ASAE often involve the assurance practitioner reporting on a combination of different types of financial information. In such circumstances, the assurance practitioner conducts the assurance engagement in accordance with the requirements (and related application and other explanatory material) in the appropriate section (A or B), and reports the assurance conclusion for each type in an individual assurance report, or a composite assurance report covering all types.

*Types of Assurance*

7. Assurance engagements within the scope of this ASAE may involve the assurance practitioner the reporting of limited assurance, or reasonable assurance on the financial information, or in some cases,

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<sup>1</sup> 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 the assurance practitioners professional responsibilities in these circumstances.

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a mixture of limited and reasonable assurance on certain aspects of the financial information. An example of a limited assurance engagement is a review of historical or non-historical financial information, and an example of a reasonable assurance engagement includes an audit of historical financial information only.<sup>2</sup> The assurance practitioner exercises professional judgement<sup>2</sup> in determining the type of assurance that is appropriate in individual engagement circumstances. Notwithstanding the application of applicable Australian Auditing Standards or Standards on Review Engagements to the audit or review of historical financial information, this ASAE includes subject matter specific requirements and related application and other explanatory material when such work is agreed within a corporate fundraising engagement terms. (Ref: Para. A1-0)

*Non-Assurance Services*

8. The assurance practitioner may be requested by the responsible party to perform both assurance and non-assurance services. This ASAE applies only to assurance services. (Ref: Para. A2-A3)

*Relationship with Other AUASB Standards*

9. This ASAE deals with specific considerations in the application of ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* and/or ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* to assurance engagements relating to reporting on financial information related to fundraisings and/or the reporting on prospective financial information.
10. This ASAE does not override the requirements of ASRE 2405, ASAE 3000, applicable Australian Auditing Standards, or Standards on Assurance Engagements 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.

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<sup>2</sup> 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 guidance on “professional judgement”.

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**Objective**

11. In conducting an assurance engagement relating to fundraisings, the overall objective of the assurance practitioner is to obtain evidence about whether the financial information is presented fairly on the stated basis of preparation to enable the reporting on the financial information in accordance with this ASAE.

**Definitions**

12. 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
    - (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.
  - (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 unadjusted, and is the starting point to which pro forma adjustments are applied by the responsible party. Base

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financial information is ordinarily historical in nature, however, it can also be prospective (for example a profit forecast). It 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, fundraisings<sup>3</sup>, takeovers, schemes of arrangement or other corporate restructures.
- (f) 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.
- (g) 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 (z) of this ASAE. References in this ASAE to “responsible party” are taken to include the engaging party unless otherwise stated.
- (h) Entity means the entity responsible for the preparation and issuance of the public document or other document.
- (i) Event(s) or transaction(s) means underlying event(s) or transaction(s) that:
  - (i) is (are) primarily the subject of the document; or
  - (ii) is (are) not the subject of the document but the effect(s) of which have been reflected in the financial information.
- (j) Financial information means information of a financial nature prepared by the responsible party in the form of:

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<sup>3</sup> See Section 700 of the *Corporations Act 2001*.



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- (i) historical;
  - (ii) pro forma historical;
  - (iii) prospective; or
  - (iv) a pro forma forecast;
- prepared on a standalone, or aggregated basis.
- (k) 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.<sup>4</sup>
  - (l) 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.<sup>5</sup>
  - (m) 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 are acceptable in the circumstances of the assurance engagement. An example of a limited assurance engagement is a review.

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

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

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- (n) 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.
- (o) 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.
- (p) Material inconsistency means information within the document that materially contradicts the financial information that is the subject of the assurance report.
- (q) 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.
- (r) 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.
- (s) Pro forma adjustments means adjustments selected by the responsible party to make to unadjusted financial information:
  - (i) to illustrate the impact of an 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) to eliminate the effects of unusual or non-recurring transactions that are not part of the normal operations of the entity; or
  - (iii) to correct errors uncertainties.

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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.

- (t) Pro forma financial information means non-IFRS financial information that is intended to show the effects of proposed or completed transactions for illustrative purposes<sup>6</sup>. 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.
- (u) 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 a:
  - (i) 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 "director's forecast"; or
  - (ii) a projection<sup>7</sup> which is prepared based on hypothetical assumptions, or a mixture of and hypothetical assumptions.
- (v) Public document means a disclosure document, product disclosure statement or other documentation provided to shareholders, unit holders, or holders of a relevant interest

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<sup>6</sup> 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.

<sup>7</sup> 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.

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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*.<sup>8</sup>
- (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.<sup>9</sup>
- (iii) Scheme Booklets.
- (iv) Target Statements.
- (v) Bidder Statements.
- (vi) Profile Statement; this is a brief statement that may be sent out with offers, with ASIC's approval, instead of a prospectus.<sup>10</sup>
- (vii) Offer Information Statement; this is a document that may be used instead of a prospectus under certain criteria set by the *Corporations Act 2001*.<sup>11</sup>
- (viii) Product Disclosure Statement (PDS) used where the entity is a trust or other type of managed investment scheme.
- (w) 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

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<sup>8</sup> See Sections 710, 711, and 713 of the *Corporations Act 2001*.

<sup>9</sup> See Section 712 of the *Corporations Act 2001*.

<sup>10</sup> See Sections 705 and 721 of the *Corporations Act 2001*.

<sup>11</sup> 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.

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reasonable assurance engagement is an audit of historical financial information.

- (x) Reasonable grounds means in relation to a statement made, that there must be a sufficient objective foundation for the statement.<sup>12</sup>
- (y) 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.
- (z) 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.
- (aa) 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.

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<sup>12</sup> See RG 170 for further guidance on the concept of reasonable grounds.

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- (bb) Subsequent events means events or facts that become known to the assurance practitioner after the date of the assurance report and prior to the relevant date.
- (cc) Takeover means the acquisition of control of listed or unlisted entities conducted in accordance with Chapter 6 of the *Corporations Act 2001*.

## **Requirements**

### **Ethical Requirements**

- 13. The assurance practitioner shall comply with relevant ethical requirements, including independence, in accordance with ASA 102.<sup>13</sup>

### **Quality Control**

- 14. The assurance practitioner shall establish and maintain a system of quality control in accordance with ASQC 1.<sup>14</sup>

### **Professional Scepticism**

- 15. 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**

- 16. 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.

### **Complying with Standards that are Relevant to the Engagement**

- 17. The assurance practitioner shall comply with this ASAE, and other AUASB Standards applied as appropriate to the engagement.

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<sup>13</sup> See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

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

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18. The assurance practitioner shall not represent compliance with this ASAE, unless the assurance practitioner has complied with the requirements of both this ASAE, and other AUASB Standards applied as appropriate to the engagement.
19. The assurance practitioner shall have an understanding of the entire section(s) of this ASAE that are applicable in the engagement circumstances, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

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

20. 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 requirement<sup>15</sup> 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;
    - (ii) the reasons for the inability to comply; and
  - (c) justification of how alternative procedures achieve the objective(s) of the requirement.
21. When the assurance practitioner is unable to perform the appropriate alternative procedures, the assurance practitioner shall consider the implications for the assurance engagement. (Ref: Para. A4)

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<sup>15</sup> The concepts and discussion on which requirements are relevant in the circumstances of the audit engagement are contained in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (paragraphs 22 and Aus 23.1), and may be helpful in determining how to ensure compliance with relevant requirements for assurance engagements related to a corporate fundraising.

## **Section A: Historical Financial Information**

22. Paragraphs 23 to 74 inclusive of this ASAE deal with special considerations in an assurance engagement related to the reporting on historical financial information in connection with a corporate fundraising.

### **Assurance Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. A5-A6)

23. In order to establish whether the preconditions for the engagement are present, the assurance practitioner shall:
- (a) obtain agreement from the responsible party that they understand and accept the terms of the assurance engagement, including the assurance practitioner's reporting responsibilities and the type of assurance to be expressed;
  - (b) acknowledge and understand their responsibility for:
    - (i) the preparation of the historical financial information in accordance with the stated basis of preparation;
    - (ii) the selection, development and adequate disclosure of the stated basis of preparation in the document,
    - (iii) determining the applicable time period to be covered by the historical financial information;
    - (iv) ensuring the consistent application of the stated basis of preparation;
    - (v) the preparation and issuance of the document<sup>16</sup> in which the historical financial information will be presented, as well as all other information that is not the subject of the assurance engagement, but which is included in the document;

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<sup>16</sup> The *Corporations Act 2001* places specific requirements on directors in relation to the preparation of public documents, including presentation of financial information included therein.



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- (vi) complying with the requirements of all applicable laws and regulations;<sup>17</sup>
- (vii) such internal control as the responsible party determines is necessary to enable the preparation of the financial information that is free from material misstatement; and
- (c) will provide the assurance practitioner with:
  - (i) unrestricted access to all information relevant to the historical financial information requested by the assurance practitioner;
  - (ii) unrestricted access to those within the entity from whom the assurance practitioner determines is necessary to obtain evidence; or the responsible party's experts;
  - (iii) a listing of all known uncorrected misstatements in the historical financial information, together with an acknowledgement that the responsible party is responsible for confirming that such misstatements are immaterial; and
  - (iv) a written representation letter 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;

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<sup>17</sup> For example, See RG 228 *Prospectus: Effective Disclosure for retail investors* (November 2011), issued by ASIC for further guidance in respect of public documents.

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- (ii) the stated basis of preparation chosen by the responsible party and used in the preparation of the historical financial information is misleading or deceptive;
  - (iii) there will be significant limitations on the scope of the assurance practitioners' work; and
  - (iv) the responsible party intends to associate the assurance practitioner's name with the financial information in an inappropriate manner;
- (b) the preconditions for the engagement, as stated in paragraph 23 of this ASAE are present;
  - (c) the assurance engagement has a rational purpose;<sup>18</sup>
  - (d) the type of assurance requested by the responsible party is acceptable to the assurance practitioner;
  - (e) the assurance practitioner has the capabilities, competence and necessary qualifications to perform the engagement; and
  - (f) 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 1 to paragraph 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 assurance practitioner shall agree the terms of the assurance engagement with the responsible party in writing. (Ref: Para. A7-A8)
27. The agreed terms of the assurance engagement shall include at a minimum: (Ref: Para. A9-A11)

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<sup>18</sup> See ASAE 3000, paragraph 17(b)(v) for further guidance

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- (a) the objective(s) and scope of the assurance engagement, including:
  - (i) the assurance practitioner's understanding of the purpose of the assurance engagement and the intended users of the assurance report;
  - (ii) confirmation that the assurance practitioner will conduct the engagement in accordance with this ASAE;
  - (iii) the nature, source, time period covered and purpose of the historical financial information;
  - (iv) a statement that the assurance practitioner is not responsible for the preparation of the historical financial information or for the selection of the stated basis of preparation;
  - (v) 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 e report was prepared;
  - (vi) if applicable, a statement that an audit is not being performed and that consequently, an audit opinion will be not be expressed;
  - (vii) the type(s) and proposed wording of the assurance conclusion;
  - (viii) a statement that the engagement cannot be relied upon to identify fraud(s),error(s), illegal action(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;

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- (ii) performing assurance procedures on the historical financial information to obtain sufficient appropriate evidence for the type of assurance required;
  - (iii) issuing a written assurance report and any other reporting agreed with the responsible party<sup>19</sup>;
  - (iv) where applicable, and once satisfied it is appropriate to, providing consent in the required form to the responsible party to 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 1 and 23 of this ASAE; and
- (d) such other terms and conditions that the assurance practitioner determines are appropriate in the assurance engagement circumstances.

**Changes in the Terms of the Assurance Engagement**

28. 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. A12)
29. 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. A13)
30. If the assurance practitioner is unable to agree to a change in the terms of the assurance engagement, and is not permitted by the

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<sup>19</sup> 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 2410 *Review of Historical Financial Information Other than a Financial Report* provides guidance on specific matters that may be communicated in a review engagement that may also be helpful in an assurance engagement involving a review of historical financial information.

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responsible party to continue the original assurance engagement, the assurance practitioner shall:

- (a) withdraw from the assurance 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.

**Planning the Assurance Engagement**

31. The assurance practitioner shall plan the assurance engagement in accordance with this ASAE by obtaining an understanding of the historical financial information, its preparation, and other assurance engagement circumstances in order to identify and understand events and transactions that may have a significant impact on the historical financial information and/or on the assurance report. Such an understanding shall be sufficient to enable the assurance practitioner to:

- (a) perform an assessment of any risks that the historical financial information may be materially misstated; and
- (b) design assurance procedures to enable the assurance practitioner to be able to express the required type of assurance. (Ref: Para. A14)

*Planning Activities*

32. 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 historical financial information is included in the financial information that is the subject of the assurance report including:
  - (i) its size, complexity, type of operations, ownership, financial and regulatory structure, strategies, industry, key products/services, competitors, regulatory environment, management structure, and financial resources: or

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- (ii) if it is in a start-up phase, or has been in operation for a number of years. If the entity is in start-up phase, the assurance practitioner ordinarily expands the planning activities so as to be able to obtain sufficient knowledge and understanding of the entity; and
    - (iii) their assets and liabilities;
  - (b) relevant industry, legal and regulatory and other external factors pertaining to the entity and any acquiree or divestee; and
  - (c) the stated basis of preparation of the entity and of any acquiree or divestee.
33. Notwithstanding any prior knowledge, the assurance practitioner, at a minimum, shall obtain an understanding of:
- (a) the stated basis of preparation chosen by the responsible party for the historical 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 historical financial information, including:
    - (i) the reason for the time period covered;
    - (ii) if 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 Auditing Standards; and what type of audit opinion or review conclusion was expressed in the auditor's report;
    - (iii) 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

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- responsible party to ensure consistency of basis of preparation<sup>20</sup>; and
- (iv) whether adjustments have been made that were previously considered immaterial in the prior period audit or review of the financial report;
- (c) if available, the nature and type of other information to be included in the document sufficient to enable the assessment of whether it is consistent with the historical financial information;
- (d) the requirements of any applicable law or regulation that may impact the historical financial information;<sup>21</sup>
- (e) the expertise of the preparers of the historical financial information; and
- (f) internal control over the process used to prepare the historical financial information.
34. The assurance practitioner's planning procedures shall include:  
(Ref: Para. A16)
- (a) setting the scope, timing and direction of the assurance engagement;
- (b) assessing whether the assurance practitioner will need to contact the entity's auditor in respect of the latest audit opinion or review conclusion expressed on the financial report;
- (c) assessing whether there are any going concern issues;

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<sup>20</sup> Refer RG 230 and RG 228 for further guidance on the nature and type of comparatives that should be included in a public document.

<sup>21</sup> 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.

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- (d) setting materiality levels for planning and performing the engagement and evaluating the likelihood of material misstatements;<sup>22</sup>
- (e) assessing assurance engagement risk; (Ref: Para. A17);
- (f) evaluating of whether the use of (an) expert(s) is/are required; and
- (g) considering the required engagement team resources for the engagement and how they will be managed, directed and supervised.

*Reliance on the work performed by others*

35. The assurance practitioner shall consider whether to use the work of any expert, the responsible party's expert or other assurance practitioner for the purposes of the assurance engagement, taking into account the following:
- (a) whether the assurance practitioner can obtain access to the relevant working papers supporting the assurance practitioner's or 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 assurance practitioners or experts work in the context of the assurance engagement;
  - (d) any prior knowledge of and experience of the work performed by that expert;
  - (e) if applicable, audit or review materiality levels set;
  - (f) if applicable, audit or review approach taken;
  - (g) if applicable, any audit or review differences identified;

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<sup>22</sup> The concepts and discussions on materiality in an audit engagement are contained in ASA 320 *Materiality in Planning and Performing an Audit* and may be helpful in determining the materiality levels for assurance engagements.



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- (h) the type of audit opinion, review conclusion or report issued, and if applicable, the reasons for any modification; and
  - (i) if applicable, whether the base financial information has been prepared in accordance with the stated basis of preparation of the entity.
- 36. If the assurance practitioner does intend to place reliance on the work of an expert<sup>23</sup>, the responsible party's expert<sup>24</sup> or other assurance practitioner for the purposes of the assurance 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.  
(Ref: Para. A1)
- 37. If the expert or other assurance practitioner 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. (Ref: Para. A18)
- 38. If the expert or other assurance practitioner does permit reliance to be placed on the work performed, the assurance practitioner shall request access to the working papers in order to:
  - (a) evaluate the competence, capabilities, objectivity and independence of that expert or other assurance practitioner;
  - (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 assurance engagement;

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<sup>23</sup> 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.

<sup>24</sup> 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.

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- (d) determine based on the work performed whether additional assurance procedures are required to be performed on the historical financial information in order to obtain sufficient appropriate evidence on which to base the required assurance conclusion;
- (e) if applicable, evaluate whether the other assurance practitioner's audit opinion or review conclusion was modified and determine the implications for the assurance 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.

**Performing the Assurance Engagement**

*Assurance Procedures* (Ref: Para. A1)

- (f) The assurance practitioner shall use professional judgement to design and perform procedures to obtain sufficient appropriate evidence on the historical financial information appropriate to the type of assurance to be obtained. Such procedures shall include, 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 made are appropriate;
  - (ii) comparing, for consistency, the comparable prior time period financial report, and if applicable, the most recent annual or interim financial report;
- (g) ensuring the historical financial information:
  - (i) has been prepared from underlying, reliable accounting records;

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- (ii) has been agreed or reconciled to underlying accounting records;
  - (iii) reflects any changes made to the stated basis of preparation from the prior audited or reviewed financial statements; and
  - (iv) reflects the results of any identified misstatements from the prior year's financial report;
- (h) where applicable, reading the most recent audit or review working papers relating to the entity's financial report it identify any matters that may affect the historical financial information;
- (i) performing analytical procedures on the historical financial information;
- (j) assessing the suitability of the stated basis of preparation including:
  - (i) if applicable, the nature and effect of any changes made to it as compared to that in the prior audited or reviewed financial statements; and
  - (ii) whether it provides a reasonable basis for presenting the significant effects attributable to the event(s) or transaction(s) that is the subject of the document;
- (k) assessing the appropriateness and suitability of any adjustments made as compared to the stated basis of preparation;
- (l) assessing whether the stated basis of preparation is adequately described in the document;
- (m) performing consistency checks in the application of the stated basis of preparation to the historical financial information;

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- (n) enquiring of the responsible party and/or other parties<sup>25</sup> 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 adjustments required to convert the basis of the financial report presentation 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; and
    - (iv) the treatment of any provisions and other significant accounting estimates (such as asset revaluations) in the historical financial information;
  - (o) any significant transactions with related parties, (for example, assets purchased from an associated entity); and
  - (p) making enquiries of the responsible party, other experts and relevant parties.
39. If the assurance practitioner obtains oral representations from the responsible party in respect of matters supporting the historical 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;

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<sup>25</sup> 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.

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- (c) obtain appropriate corroborative evidence;<sup>26</sup> and
  - (d) document the key aspects of the oral representation.
- 40. The assurance practitioner considers the adequacy, relevance and reliability of the information obtained as a result of performing assurance procedures to be used as evidence.<sup>27</sup>
- 41. Where the assurance practitioner identifies matters requiring further investigation, additional assurance procedures shall be performed to reduce the assurance engagement risk to an appropriate level to the required level of assurance.
- 42. The assurance practitioner's assessment of risk may change during the course of the assurance engagement as additional evidence is obtained. In circumstances where the assurance practitioner obtains evidence from performing further assurance procedures, or if new information is obtained, either of which is inconsistent with the evidence on which the assurance practitioner originally based the assessment, the assurance practitioner shall revise the assessment and modify the further planned assurance procedures accordingly.
- 43. 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 as evidence for the historical financial information; and/or
  - (b) require changes, or additions, to the assurance procedures in order to obtain sufficient appropriate evidence on which to base an assurance conclusion on the historical financial information.

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<sup>26</sup> 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.

<sup>27</sup> The concepts and discussions on obtaining evidence relevant to an audit engagement are contained in ASA 500 *Audit Evidence* which may be useful to assurance practitioners when determining the extent of the evidence required to be obtained in the conduct of an assurance engagement.

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*Adjustments Identified by the Assurance Practitioner* (Ref: Para. A20)

44. When, during the conduct of the assurance engagement, a matter(s) come(s) to the assurance practitioner's attention that cause(s) the assurance practitioner to believe that it is necessary to make a material adjustment to the historical financial information for it to be prepared in accordance with the stated basis of preparation, the assurance practitioner shall communicate this matter(s) as soon as practicable to the responsible party. If the responsible party refuses to make the adjustment, the assurance practitioner shall express an adverse conclusion in accordance with paragraph 64 of this ASAE.

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**  
(Ref: Para. A21-A22)

45. The assurance practitioner shall evaluate whether the assurance practitioner has obtained sufficient appropriate evidence<sup>28</sup> on which to express an assurance conclusion on the historical financial information.

**Other Information Included in the Document** (Ref: Para. A23)

46. When the document containing the historical financial information and assurance report includes 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 historical financial information.
47. If the assurance practitioner:
- (a) identifies a material inconsistency between the other information and the historical financial information; or
  - (b) becomes aware of a material misstatement of fact in that other information that is related to the historical financial information; or
  - (c) identifies a potentially misleading or deceptive statement in relation to the historical financial information;

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<sup>28</sup> The concepts and discussions on the sufficiency and appropriateness of evidence related to an audit engagement are contained in ASA 500 *Audit Evidence* and may be helpful in evaluating the evidence for an assurance engagement.

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the assurance practitioner discusses the matter(s) identified with the responsible party and:

- (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 revisions have been made; or
- (e) if the responsible party refuses to make the revisions, the assurance practitioner shall consider whether to:
  - (i) obtain legal advice on the appropriate course of action for the assurance practitioner;
  - (ii) include in the assurance report an Other Matter paragraph<sup>29</sup> that describes the material inconsistency and/or misstatement of fact;
  - (iii) withdraw consent for the responsible party to include the assurance report in the document; and/or
  - (iv) withdraw from the assurance engagement, where the withdrawal is possible under applicable law or regulation.

**Going Concern Considerations**

- 48. The assurance practitioner shall perform an assessment of the entity's ability to continue as a going concern, unless in the assurance engagement circumstances, the assurance practitioner determines that such an assessment is not relevant.<sup>30</sup> (Ref: Para. A24)
- 49. The assurance practitioner shall obtain sufficient appropriate evidence regarding the appropriateness of the responsible party's use

<sup>29</sup> 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 Investigating Accountant's Report applicable to an assurance engagement.

<sup>30</sup> The concepts and discussions on the going concern assessment relevant to a financial report audit engagement are contained in ASA 570 *Going Concern*, and may be helpful in performing a going concern assessment in an assurance engagement relating to financial information. Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, paragraphs 25-26 contains relevant guidance on the going concern assessment.

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of the going concern assumption in the preparation of the historical financial information. (Ref: Para. A25-A26)

50. If the assurance practitioner concludes the entity is not a going concern or if there is a material uncertainty related to events or conditions that individually or collectively may cast significant doubt on the entity's ability to continue as a going concern, the assurance practitioner shall consider the implications for the assurance engagement and the assurance report. (Ref: Para. A27)

**Consideration of Events Up to the Date of the Assurance Report**

(Ref: Para. A28)

51. The assurance practitioner shall consider the impact of any event, transaction, or error 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.<sup>31</sup>
52. The assurance practitioner shall discuss with the responsible party any such event, transaction or error identified during the assurance engagement with a view to concluding as to whether the effect on the historical financial information is material, and has been or requires adjustment and/or disclosed in the historical financial information and/or elsewhere in the document. If the required adjustment is not made, the assurance practitioner shall consider the implications for the assurance report, including modifying the assurance conclusion.

**Consideration of Events Identified After the Date of the Assurance Report**

(Ref: Para. A29-A30)

53. If the assurance practitioner becomes aware of events, transactions or errors 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 events and/or transactions with the responsible party; and

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<sup>31</sup> 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 relating to historical financial information.



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- (b) consider what further action is appropriate in the engagement circumstances, including the implications for the assurance report.
54. The assurance practitioner shall revoke any consent previously provided, to include the assurance report in the document, if the matter(s) referred to in paragraph 54 of this ASAE are not, in the assurance practitioner's professional judgement, appropriately addressed by the responsible party.

**Written Representations** (Ref: Para. A31-A35)

55. The assurance practitioner shall request written representations from the responsible party at the completion of the assurance engagement containing the following:
- (a) those described in paragraph 24 of this ASAE;
  - (b) an acknowledgement of the intended use of the historical financial information;
  - (c) confirmation that the going concern basis of preparation of the historical financial information is appropriate in the document;
  - (d) confirmation that there are no currently anticipated material changes to be made to the historical financial information between the date of the assurance report and the relevant date;
  - (e) confirmation that there has been no matter, event or issue that has arisen or been discovered subsequent to the preparation of the historical financial information that may impact, or require adjustment to, the historical financial information;
  - (f) providing the assurance practitioner with a listing of all known uncorrected immaterial misstatements in the historical financial information, together with an acknowledgement that the responsible party is responsible for confirming that such misstatements are immaterial; and

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- (g) such other written representations that the assurance practitioner determines are appropriate in the engagement circumstances.
- 56. The date of the representation letter shall be as near as practicable to, but not after, the date of the assurance report.
- 57. 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) discuss the matter 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.
- 58. 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.

**Forming the Assurance Conclusion**

- 59. The assurance practitioner shall form a conclusion on the historical financial information. 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 historical financial information.

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*Unmodified Conclusion*

60. The assurance practitioner shall express an unmodified conclusion in the assurance report, when the assurance practitioner concludes:
- (a) in a limited assurance engagement, that, based on the procedures performed, nothing has come to the attention of the assurance practitioner that causes the assurance practitioner to believe that the historical 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, that the historical financial information is presented fairly, in all material respects, in accordance with the stated basis of preparation.

*Emphasis of Matter Paragraph*

61. The assurance report shall include an Emphasis of Matter paragraph alerting users of the assurance report that the historical 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.<sup>32</sup>
62. 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 the basis that the matter is of such importance that it is fundamental to users' understanding of the historical financial information.<sup>33</sup>

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<sup>32</sup> See ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* for further guidance.

<sup>33</sup> 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.

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*Modified Conclusion*

63. The assurance practitioner shall, subject to paragraph 65 of this ASAE, express a modified conclusion<sup>34</sup> 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 historical 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 historical financial information of undetected misstatements, if any, could be both material and pervasive (disclaimer of conclusion); or
  - (d) express a qualified or adverse conclusion, as appropriate, in the assurance report when the responsible party has not made required disclosures relating to material uncertainties in respect of going concern<sup>35</sup>, in the document. (Ref: Para. (a))
64. 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 assurance engagement. (Ref: Para. A36)

**Preparing the Assurance Report**

65. The assurance practitioner shall provide a written assurance report to the responsible party containing a clear expression of the assurance

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<sup>34</sup> See ASA 705 Modifications to the Opinion in the Independent Auditors Report for further guidance.

<sup>35</sup> See ASA 570 *Going Concern* for further guidance.

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practitioner's conclusion on the historical financial information included in the document. (Ref: Para. A38)

66. If applicable, the assurance practitioner's conclusion on the historical financial information shall be clearly separated from other types of financial information within the assurance report.  
(Ref: Para. A39)

*Basic Elements of the Assurance Report*

67. The assurance report shall include the following basic elements:  
(Ref: Para. A40-A41)
- (a) a statement 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 where applicable, the fact that it will be included in the document;
  - (d) a scope section that:
    - (i) identifies the entity(s) whose historical financial information is the subject of the assurance report, and where applicable, the responsible party;
    - (ii) identifies the source of the historical financial information being reported on, the time period covered; and where applicable, an 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;
    - (iv) states that the assurance engagement was performed in accordance with this ASAE;

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- (v) whether it has been previously audited or reviewed and by whom, and the type of conclusion expressed;
- (vi) describes the type of engagement conducted by the assurance practitioner, the level of assurance and the type of conclusion planned;
- (e) if applicable, a statement that the assurance 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 all 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

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- ◆ if the conclusion is modified, a clear description of all 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) an independence, 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.
68. 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 assurance engagement, and if not, whether additional explanation in the assurance practitioner's report can mitigate possible misunderstanding.
69. The assurance practitioner shall not report compliance with this ASAE or other AUASB Standards in the assurance report unless it

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includes, at a minimum, each of the elements identified in paragraph 68 of this ASAE.

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

(Ref: Para. A1-A1)

- 70. The assurance practitioner shall consider applicable law or regulation when providing consent in writing for the inclusion of the assurance report in the document.
- 71. 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.

**Documentation**

- 72. The assurance practitioner shall prepare documentation on a timely basis.
- 73. The assurance practitioner shall prepare documentation that is sufficient to enable an experienced assurance practitioner, having no previous connection with the assurance engagement, to understand:  
(Ref: Para. A43-A44)
  - (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 assurance engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.



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**Subsection: Pro Forma Historical Financial Information**

74. This section applies when the assurance practitioner is required to provide assurance on the pro forma historical financial information itself. 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*. Paragraphs 76 to 84 inclusive of this ASAE deal with additional special considerations in the application of the historical financial information requirements in paragraphs 22 to 74 inclusive of this ASAE to historical financial information with pro forma adjustments applied to it, resulting in pro forma historical financial information. (Ref: Para. A45)

**Assurance Engagement Acceptance**

*Preconditions for Acceptance*

75. In addition to the requirements in paragraphs 23 and 24 of this ASAE, the assurance practitioner shall, prior to agreeing the terms of the assurance engagement, obtain agreement from the responsible party that it accepts its responsibility for:
- (a) selecting the base historical financial information used 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;<sup>36</sup> and
  - (e) the preparation of pro forma historical financial information for the time period(s) stated in accordance with the stated basis of preparation.

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<sup>36</sup> For example, refer RG 228 and RG 230 *Disclosing non-IFRS financial information* (December 2011) issued by ASIC.

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Other Factors Affecting Engagement Acceptance

76. In addition to the requirement in paragraph 24 of this ASAE, the assurance practitioner shall only accept the engagement when 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 base financial information, if it was previously audited or reviewed.

**Agreeing on the Terms of the Assurance Engagement**

77. In addition to the requirements in paragraphs 26 and 27 of this ASAE, the agreed terms of the assurance engagement shall include that the assurance practitioner is responsible for performing assurance procedures on the pro forma historical financial information that are applicable to the engagement. (Ref: Para. A47)

**Planning the Assurance Engagement**

*Planning Activities*

78. In addition to the requirements in paragraphs 31 to 33 inclusive of this ASAE, the assurance practitioner's planning procedures shall include: (Ref: Para. (a)(i))
- (a) determining the source of the base financial information used in the preparation of the pro forma historical financial information, whether it has been previously audited or reviewed, and the type of audit opinion or review conclusion issued; and
    - (i) if the audit opinion/review conclusion was modified, understand the implications, if any, for the engagement; and/or
    - (ii) determine the additional procedures required if the base financial information has not been previously audited or reviewed; and

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- (b) determining any applicable law or regulation covering the preparation of the pro forma historical financial information.<sup>37</sup>

**Performing the Assurance Engagement**

*Assurance Procedures*

79. In addition to the requirements in paragraphs 39 to 44 inclusive of this ASAE, the assurance practitioner shall design and perform the following procedures, at a minimum, on the pro forma historical financial information: (Ref: Para. A1)
- (a) if the source of the base historical financial information has not been previously audited or reviewed, performing such procedures as is necessary in the assurance practitioner's professional judgement to obtain sufficient appropriate evidence on which to rely for the assurance engagement purposes;
  - (b) considering the reasonableness and appropriateness of the stated basis of preparation and time period covered by the pro forma historical financial information;
  - (c) determining the differences, if any, between its basis of preparation and that of the most recent audited or reviewed historical financial information, and assessing the reasons for any differences;
  - (d) understanding the basis for, and calculations underlying, the pro forma adjustments;
  - (e) determining whether the pro forma adjustments selected and applied by the responsible party are consistent with the stated basis of preparation, supported by appropriate evidence, and are arithmetically correct;<sup>38</sup>
  - (f) determining whether the resultant pro forma financial information reflects the results of applying the pro forma adjustments to the base financial information;

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<sup>37</sup> Refer RG 230 for further guidance.

<sup>38</sup> Refer RG 170 and RG 228 for further guidance on the nature of pro forma adjustments.

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- (g) assessing whether the stated basis of preparation of the pro forma historical financial information is adequately described in the financial information section of the document;
  - (h) assessing whether the stated basis of preparation provides a reasonable basis for presenting the significant effects attributable to the event(s) or transaction(s).
- 80. 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; and/orthe assurance practitioner shall consider the implications for the assurance engagement and the assurance report.

**Written Representations**

- 81. In addition to the requirements in paragraphs 56 to 58 inclusive of this ASAE, the assurance practitioner shall request the responsible party to include in the written representation letter an acknowledgement of the responsible party's responsibility for those matters described in paragraph 76 of this ASAE.

**Forming the Assurance Conclusion**

- 82. The assurance practitioner shall form a conclusion on the pro forma historical financial information in accordance with the agreed terms of engagement. In forming the conclusion, the assurance practitioner shall consider the sufficiency and appropriateness of evidence obtained.

**Preparing the Assurance Report**

*Basic Elements of the Assurance Report*

- 83. In addition to the requirement in paragraph 68 of this ASAE, the assurance report shall include:
  - (a) statements in the scope section that:

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- (i) identify the pro forma historical financial information being reported on, including the time period covered;
  - (ii) identify whether the historical financial information used as the base for the pro forma historical financial information has been previously audited or reviewed; and
  - (iii) identify the stated basis of preparation selected by the responsible party for the pro forma historical financial information; (Ref: Para. A51)
- (b) if applicable, a statement that the firm which the assurance practitioner is a member of holds an Australian Financial Services License under the *Corporations Act 2001*;
- (c) if applicable, statements that the assurance engagement did not include updating or re-issuing any previously issued audit or review report on the 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 all the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; or

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- (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 all the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report.

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**Section B: Prospective Financial Information**

84. Paragraphs 85 to 140 inclusive of this ASAE deal with the special considerations in performing assurance engagements in relation to prospective financial information in the form of a forecast, prepared based on the responsible party's assumptions. For prospective financial information that has had pro forma adjustments applied to it, resulting in a pro forma forecast, refer to the requirements in paragraphs 141 to 149 inclusive of this ASAE.

**Assurance Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. A52-A54)

85. In order to establish whether the preconditions for the engagement are present, the assurance practitioner shall:
- (a) obtain agreement from the responsible party that they understand and accepts the terms of the assurance engagement, including the assurance practitioner's reporting responsibilities and type of assurance to be expressed on the different elements of the prospective financial information;
  - (b) acknowledge and understand their responsibility for:
    - (i) the preparation of the prospective financial information in accordance with the stated basis of preparation and based on assumptions<sup>39</sup> that provide reasonable grounds<sup>40</sup> for the prospective financial information, and which are not misleading or deceptive, having regard to applicable law and regulation;<sup>41</sup>

(Ref: Para. A55)

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<sup>39</sup> See ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* for further guidance on assessing the reasonableness of assumptions.

<sup>40</sup> See paragraph 12(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.

<sup>41</sup> In relation to public documents, see S728 or S769C of the *Corporations Act 2001* and RG 170.

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- (ii) the selection, development and adequate disclosure of the stated basis of preparation in the document;
  - (iii) determining the applicable time period to be covered by the prospective financial information;
  - (iv) ensuring the consistent application of the stated basis of preparation;
  - (v) the preparation and issuance of the document<sup>42</sup> in which the prospective financial information will be presented, as well as all other information that is not the subject of the assurance engagement, but which is included in the document;
  - (vi) complying with the requirements of all applicable laws and regulations;<sup>43</sup> and
  - (vii) such internal control as the responsible party determines is necessary to prepare the prospective financial information;
- (c) will provide the assurance practitioner with:
- (i) unrestricted access to all information relevant to the prospective financial information requested by the assurance practitioner
  - (ii) unrestricted access to those within the entity from whom the assurance practitioner determines is necessary to obtain evidence; or the responsibly party's experts; and
  - (iii) a written representation letter covering all matters requested by the assurance practitioner within the timeframe required.

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<sup>42</sup> The *Corporations Act 2001* and the Corporations Regulations place specific requirements on directors in relation to the preparation of documents that are public documents, including presentation of financial information included therein.

<sup>43</sup> For example, see RG 228 and RG 230 in relation to public documents.



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Other Factors Affecting Engagement Acceptance

86. 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 prospective financial information is not prepared based on assumptions that have reasonable grounds, or on a projection, or includes material hypothetical assumptions;
    - (iii) the stated basis of preparation of the prospective financial information chosen by the responsible party is misleading or deceptive;
    - (iv) there will be significant limitations on the scope of the assurance practitioners' work; and
    - (v) the responsible party intends to associate the assurance practitioner's name with the prospective financial information in an inappropriate manner;
    - (vi) the time period covered by the prospective financial information is not acceptable;<sup>44</sup>
    - (vii) any historical financial information used as a base for the prospective financial information has been previously audited or reviewed, or is planned to be reviewed as part of the agreed terms of the assurance engagement; and will be included in the document; (Ref: Para. A58)
  - (b) the preconditions for the engagement, as stated in paragraph 85 of this ASAE are present;

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<sup>44</sup> 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 disclosed it because the grounds for longer terms prospective financial information become less verifiable.

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- (c) the assurance engagement has a rational purpose;  
(Ref: Para. A59)
  - (d) the type of assurance required on different elements of the prospective financial information by the responsible party are acceptable to the assurance practitioner; (Ref: Para. A60)
  - (e) the assurance practitioner has the capabilities, competence and necessary qualifications to perform the engagement; and
  - (f) the assurance practitioner believes that the assurance report will be used for its intended purpose.
87. If the preconditions for the assurance engagement or other factors affecting engagement acceptance, as set out in paragraph 86 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**

88. The assurance practitioner shall agree the terms of the assurance engagement with the responsible party in writing. (Ref: Para. A61-A62)
89. The agreed terms of the assurance engagement shall include at a minimum: (Ref: Para. A65)
- (a) the objective(s) and scope of the assurance engagement, including:
    - (i) the assurance practitioner's understanding of the purpose of the assurance engagement and the intended users of the assurance report;
    - (ii) confirmation that the assurance practitioner will conduct the engagement in accordance with this ASAE;
    - (iii) the nature, source, time period covered and purpose of the prospective financial information;

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- (iv) a statement that the assurance practitioner is not responsible for the preparation of the prospective financial information, or for the selection of the stated basis of preparation;
  - (v) 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 the intended users, or for any purpose other than that for which the assurance report was prepared;
  - (vi) a statement that an audit is not being performed and that consequently, an audit opinion will not be expressed;
  - (vii) the type(s) and proposed wording of the assurance conclusion on the different elements of the prospective financial information;
  - (viii) a statement that the engagement cannot be relied upon to identify fraud(s), error(s), illegal action(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 prospective financial information to obtain sufficient appropriate evidence for the type of assurance required;

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- (iii) issuing a written assurance report and any other reporting agreed with the responsible party;<sup>45</sup>
- (iv) where applicable, and once satisfied it is appropriate to, providing consent in the required form to the responsible party to the inclusion of the assurance practitioner's name and assurance report in the document; (Ref: Para. A64(c)(v))
- (c) the responsibilities of the responsible party including those set out in paragraph 86 of this ASAE; and
- (d) such other terms and conditions that the assurance practitioner determines are appropriate in the circumstances of the assurance engagement. (Ref: Para. A64)

**Changes in the Terms of the Assurance Engagement**

- 90. 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. A66)
- 91. 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 assurance engagement letter or other suitable form of written agreement. (Ref: Para. A67)
- 92. If the assurance practitioner is unable to agree to a change in the terms of the assurance engagement, and is not permitted by the responsible party to continue the original engagement, the assurance practitioner shall:
  - (a) withdraw from the assurance engagement where possible under applicable law or regulation; and

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<sup>45</sup> 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 assurance on prospective financial information. Additionally, ASRE 2410 *Review of Historical Financial Information Other than a Financial Report* provides guidance on specific matters that may be communicated in a review engagement that may also be helpful in an assurance engagement involving assurance reporting on prospective financial information.

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- (b) determine whether there is any obligation, either contractual or otherwise, to report the circumstances to parties other than the responsible party.

**Planning the Assurance Engagement**

93. The assurance practitioner shall plan the assurance engagement in accordance with this ASAE by obtaining an understanding of the prospective financial information, its preparation, and other assurance engagement circumstances to identify and understand event(s) and transaction(s) that may have a significant impact on the prospective financial information, or on the assurance report. Such an understanding shall be sufficient to enable the assessment of any risks that the prospective financial information may not be prepared in accordance with the stated basis of preparation, or that the assumptions used do not provide a reasonable basis for the prospective financial information, or that the prospective financial information is itself unreasonable.

*Planning Activities* (Ref: Para. A68-A73)

94. 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 prospective financial information that is the subject of the assurance report including :
    - (i) its size, complexity, type of operations, ownership, financial and regulatory structure, strategies, industry, key products/services, competitors, regulatory environment, management structure and financial resources;
    - (ii) if it is in a start-up phase, or has been in operation for a number of years. If the entity is in start-up phase, the assurance practitioner ordinarily expands the planning activities so as to be able to obtain sufficient knowledge and understanding of the entity; and
    - (iii) their assets and liabilities;

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- (b) relevant industry, legal and regulatory and other external factors pertaining to the entity and any acquiree or divestee; and
  - (c) the stated basis of preparation of the entity and of any acquiree or divestee.
- 95. Notwithstanding any prior knowledge, the assurance practitioner shall obtain, as a minimum, an understanding of:
  - (a) the stated basis of preparation chosen by the responsible party for the historical financial information;
  - (b) the historical financial information, including the time period covered, any adjustments made, intended use and the extent to which it is affected by the responsible party's judgements, sufficient to design assurance procedures to enable the assurance practitioner to be able to express the required type of assurance;
  - (c) if available, the nature of other information to be included in the document sufficient to assess whether it is consistent with the historical financial information;
  - (d) the requirements of any applicable law or regulation that may impact the historical financial information;<sup>46</sup>
  - (e) the expertise of the preparers of the historical financial information; and
  - (f) internal control over the process used to prepare the historical financial information.
- 96. The assurance practitioner's planning procedures shall include:
  - (a) setting the scope, timing and direction of the assurance engagement;

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<sup>46</sup> 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.

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- (b) assessing whether the assurance practitioner will need to contact the entity's auditor in respect of the latest audit opinion or review conclusion expressed on the financial report;
- (c) assessing whether there are any going concern issues;
- (d) setting materiality levels for planning and performing the engagement and evaluating the likelihood of material misstatements;<sup>47</sup>
- (e) assessing assurance engagement risk;<sup>48</sup> (Ref: Para. A71)
- (f) evaluating whether the use of (an) expert(s) is/are required; and
- (g) considering the required engagement team resources for the engagement and how such resources will be managed, directed and supervised.

*Reliance on the work performed by others*

97. The assurance practitioner shall consider whether to use the work of any expert, the responsible party's expert or other assurance practitioner for the purposes of the assurance engagement, taking into account the following:
- (a) whether the assurance practitioner can obtain access to the relevant working papers supporting the assurance practitioner's or 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 assurance practitioners or experts work in the context of the assurance engagement;

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<sup>47</sup> The concepts and discussions on materiality in an audit engagement are contained in ASA 320 *Materiality in Planning and Performing an Audit* and may be helpful in determining the materiality levels for an assurance engagement.

<sup>48</sup> The concepts and discussions on assurance engagement risk relevant to an audit engagement are contained in ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, and may be helpful to assurance practitioners when determining assurance engagement risk in the conduct of an assurance engagement.

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- (d) any prior knowledge of and experience of the work performed by that expert;
  - (e) if applicable, audit or review materiality levels set;
  - (f) if applicable, audit or review approach taken;
  - (g) if applicable, any audit or review differences identified;
  - (h) the type of audit opinion, review conclusion or report issued, and if applicable, the reasons for any modification; and
  - (i) if applicable, whether the base financial information has been prepared in accordance with the stated basis of preparation of the entity.
98. If the assurance practitioner does intend to place reliance<sup>49</sup> on the work of an expert,<sup>50</sup> the responsible party's expert<sup>51</sup> or other assurance practitioner for the purposes of the assurance 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.
99. If the expert or other assurance practitioner 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. (Ref: Para. A74)
100. If the expert or other assurance practitioner permits reliance to be placed on the work performed, the assurance practitioner shall request access to the work in order to:

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<sup>49</sup> The concepts and discussions on auditor's using the work of other experts are contained in ASA 620 *Using the Work of an Auditor's Expert* and may be helpful in determining the extent of reliance in an assurance engagement.

<sup>50</sup> See ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, paragraph 28; ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraphs 47-55, and ASA 620 *Using the Work of an Auditor's Expert*.

<sup>51</sup> 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.



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- (a) evaluate the competence, capabilities, objectivity and independence of that expert or other assurance practitioner;
- (b) understand the scope, timing, type of work performed and outcome of the work performed;
- (c) evaluate the appropriateness of the work performed as evidence for the purposes of the assurance engagement;
- (d) determine based on the work performed, whether additional assurance procedures are required to be performed on the prospective financial information in order to obtain sufficient appropriate evidence on which to base the required assurance conclusion;
- (e) if applicable, evaluate whether the other assurance practitioner's audit opinion or review conclusion was modified and determine the implications for the assurance 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.

**Performing the Assurance Engagement**

*Assurance Procedures*

101. The assurance practitioner shall use professional judgement to design and perform procedures to obtain sufficient appropriate evidence on the different elements of the prospective financial information appropriate to the type of assurance to be obtained. Such procedures shall include: (Ref: Para. A75)
- (a) ensuring the prospective financial information reflects any changes made to the stated basis of preparation from the prior audited or reviewed period, and if so, the nature of the change and its effect; and determining the differences, if any, between the basis of preparation of the prospective financial information and that of other financial information

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- included in the document and assessing the reasons for any differences;
- (b) if the source of the base financial information has not been previously audited or reviewed, perform such procedures as is necessary in the assurance practitioner's professional judgement to obtain sufficient appropriate evidence on which to rely for the assurance engagement purposes;
  - (c) where applicable, reading the most recent audit or review working papers relating to the entity's financial report to identify any matters that may affect the historical financial information;
  - (d) considering the reasonableness of the time period covered by the prospective financial information;
  - (e) performing analytical procedures on the prospective financial information, where possible;
  - (f) assessing whether the stated basis of preparation of the prospective financial information is adequately described in the financial information section of the document;
  - (g) assessing whether the stated basis of preparation provides a reasonable basis for presenting the significant effects attributable to the event(s) or transaction(s); (Ref: Para. A78)
  - (h) performing consistency checks in the application of the stated basis of preparation to the prospective financial information;
  - (i) making enquiries of the responsible party, other experts and relevant parties.
  - (j) verifying if the source of the base financial information includes historical financial information; whether such historical financial information has been previously audited or reviewed and the type of audit opinion or review conclusion expressed; and (Ref: Para. A76)
  - (k) determining whether the assumptions used in the preparation are consistent with the stated basis of

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preparation, supported by appropriate evidence, and are arithmetically correct.

102. If the assurance practitioner obtains oral representations from the responsible party in respect of matters supporting the prospective 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;<sup>52</sup> and
  - (d) document the key aspects of the oral representation.
103. The nature, timing, and extent of assurance procedures to be carried out may be influenced by various factors, including:
- (a) whether the historical financial information included in the document 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;
  - (b) whether the prospective financial information included in the document is prepared on the same basis of preparation with that of the prior period audited or reviewed historical financial information;
  - (c) whether the source and time period covered by the prospective financial information are appropriate under the stated basis of preparation. The evaluation of the appropriateness of the source and the time period used should include an assessment of whether there are any inconsistencies with the stated basis of preparation;

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<sup>52</sup> 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.

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- (d) whether there is a need to make adjustments previously considered immaterial in the prior period audit or review of the financial report;
  - (e) responses received from the responsible party and/or other parties.<sup>53</sup> Such enquires may relate 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 adjustments required to convert the basis of the financial report presentation 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 report; and
    - (v) any significant transactions with related parties, (for example, assets purchased from an associated entity).
104. The assurance practitioner considers the adequacy, relevance and reliability of the information obtained to be used as evidence.<sup>54</sup>
105. If the responsible party's assumptions on which the prospective financial information lack supporting evidence, and are determined by the assurance practitioner not to reasonable grounds, the assurance practitioner shall consider such assumptions to be

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<sup>53</sup> The concepts and discussions on using the work of another auditor or internal auditor relevant to an audit engagement are contained in Auditing Standard ASA 600 *Special Considerations-Audits of a Group Financial Report (including the Work of Component Auditors)* and Auditing Standard ASA 610 *Using the Work of Internal Auditors* which may be helpful in considering the work of other auditors applicable to an assurance engagement.

<sup>54</sup> The concepts and discussions on obtaining evidence relevant to an audit engagement are contained in ASA 500 *Audit Evidence* which may be useful to assurance practitioners when determining the extent of the evidence required to be obtained in the conduct of an assurance engagement.

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hypothetical and shall determine the implications for the assurance engagement and the assurance report, taking into account any applicable law or regulation.<sup>55</sup>

106. Where the assurance practitioner identifies matters requiring further investigation, additional assurance procedures shall be performed to reduce the assurance engagement risk to an appropriate level to the required level of assurance.
107. The assurance practitioner's assessment of risk may change during the course of the assurance engagement as additional evidence is obtained. In circumstances where the assurance practitioner obtains evidence from performing further assurance procedures, or if new information is obtained, either of which is inconsistent with the evidence on which the assurance practitioner originally based the assessment, the assurance practitioner shall revise the assessment and modify the further planned assurance procedures accordingly.
108. 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 as evidence for the prospective financial information or underlying assumptions; and/or
  - (b) require changes, or additions, to the assurance procedures in order to obtain sufficient appropriate evidence on which to base an assurance conclusion on the prospective financial information.

*Adjustments Identified by the Assurance Practitioner*

109. When during the conduct of the assurance engagement a matter(s) come(s) to the assurance practitioner's attention that cause(s) the assurance practitioner to believe that it is necessary to make a material adjustment to the prospective financial information for it to be prepared in accordance with the stated basis of preparation, the assurance practitioner shall communicate this matter(s) as soon as practicable to the responsible party. (Ref: Para. A81)

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<sup>55</sup> See RG 170.

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110. If the responsible party refuses to make the adjustment, the assurance practitioner shall express an adverse conclusion in accordance with paragraph 129 of this ASAE.

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**  
(Ref: Para. A82-A83)

111. The assurance practitioner shall evaluate whether the assurance practitioner has obtained sufficient appropriate evidence<sup>56</sup> on which to express an assurance conclusion on the prospective financial information.

**Other Information Included in the Document**

112. When the document containing the prospective financial information and assurance report includes 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 prospective financial information. (Ref: Para. A84)

113. If the assurance practitioner: (Ref: Para. A85)

- (a) identifies a material inconsistency between the other information and the prospective financial information; or
- (b) becomes aware of a material misstatement of fact in that other information that is related to the prospective financial information; or
- (c) identifies a potentially misleading or deceptive statement related to the prospective financial information;

the assurance practitioner discusses the matter(s) with the responsible party and:

- (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 revisions have been made; or

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<sup>56</sup> The concepts and discussions on the sufficiency and appropriateness of evidence related to an audit engagement are contained in ASA 500 *Audit Evidence* and may be helpful in evaluating the evidence for an assurance engagement.

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- (e) if the responsible party refuses to make the revisions, the assurance practitioner shall consider whether to:
  - (i) obtain legal advice on the appropriate course of action for the assurance practitioner;
  - (ii) include in the assurance report an Other Matter paragraph<sup>57</sup> that describes the material inconsistency and/or misstatement of fact;
  - (iii) withdraw consent for the responsible party to include the assurance report in the document; and/or
  - (iv) withdraw from the assurance engagement, where withdrawal is possible under applicable law or regulation.

**Going Concern Considerations**

- 114. The assurance practitioner shall determine if an assessment of the entity's ability to continue as a going concern is relevant to the assurance engagement.<sup>58</sup> (Ref: Para. A86)
- 115. 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 prospective financial information.  
(Ref: Para. A87-A88)
- 116. 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

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<sup>57</sup> 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 Investigating Accountant's Report applicable to an assurance engagement.

<sup>58</sup> 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.

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doubt on the entity's ability to continue as a going concern, the assurance practitioner shall consider the implications for the assurance engagement and the assurance report. (Ref: Para. A89)

**Consideration of Events Up to the Date of the Assurance Report**

(Ref: Para. A91-A92)

117. The assurance practitioner shall consider the impact of any event, transaction, or error of which the assurance practitioner becomes aware, that may materially affect the prospective financial information, for the time period up to and including the date of the assurance report.<sup>59</sup>
118. The assurance practitioner shall discuss with the responsible party any such event(s), transaction(s), or error(s) identified in paragraph 118 of this ASAE, with a view to concluding as to whether its effect on the prospective financial information is material, and has been or requires adjustment and/or disclosed in the prospective financial information, and/or elsewhere in the document. If the required adjustment is not made, the assurance practitioner shall consider the implications for the assurance report, including modifying the assurance conclusion.

**Consideration of Events Identified After the Date of the Assurance Report**

(Ref: Para. A93-A94)

119. 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) and/or transaction(s) with the responsible party; and
  - (b) consider what further action is appropriate in the engagement circumstances, including the implications for the assurance report.

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<sup>59</sup> The concepts and discussion 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 related to prospective financial information.



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120. The assurance practitioner shall revoke any consent previously provided, to include the assurance report in the document, if the matter(s) referred to in paragraph 120 of this ASAE are not, in the assurance practitioner's professional judgement, appropriately addressed by the responsible party.

**Written Representations**

121. The assurance practitioner shall request written representations from the responsible party at the completion of the assurance engagement containing the following: (Ref: Para. A95)
- (a) those described in paragraph 86 of this ASAE;
  - (b) an acknowledgement of the intended use of the prospective financial information;
  - (c) confirmation that the going concern basis of preparation of the prospective financial information is appropriate in the document;
  - (d) confirmation that there are no currently anticipated material changes to be made to the prospective financial information between the date of the assurance report and the relevant date;
  - (e) confirmation that there has been no matter(s), event(s) or issue(s) that has arisen or been discovered subsequent to the preparation of the prospective financial information that may impact, or require adjustment to, the prospective financial information;
  - (f) providing the assurance practitioner with a listing of all known uncorrected immaterial misstatements in the prospective financial information, together with an acknowledgement that the responsible party is responsible for confirming that such misstatements are immaterial;
  - (g) confirmation of the completeness of material assumptions used in the preparation of the prospective financial information and that they remain appropriate, even though the underlying information may have been accumulated over a period of time; and

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- (h) such other written representations that the assurance practitioner determines are appropriate in the engagement circumstances.
- 122. The date of the representation letter shall be as near as practicable to, but not after, the date of the assurance report. (Ref: Para. A96)
- 123. 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) discuss the matter 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.
- 124. 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

**Forming the Assurance Conclusion**

- 125. The assurance practitioner shall form a conclusion on each aspect of the prospective financial information. In forming that conclusion, the assurance practitioner shall:
  - (a) consider the assurance practitioner's conclusion regarding the sufficiency and appropriateness of evidence obtained; and

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- (b) evaluate whether there are any uncorrected misstatements are material, either individually or in aggregated, to the prospective financial information.

*Unmodified Conclusion*

126. The assurance practitioner shall express an unmodified conclusion in the assurance report on each aspect 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 the 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 mixture of limited and reasonable assurance, 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

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- (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.

*Emphasis of Matter Paragraph*

- 127. The assurance report shall include an Emphasis of Matter paragraph alerting users of the assurance report that the prospective 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.<sup>60</sup>
- 128. 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 prospective financial information or accompanying explanatory notes on the basis that the matter is of such importance that it is fundamental to users' understanding of the prospective financial information.<sup>61</sup>

*Modified Conclusion*

- 129. The assurance practitioner shall express a modified conclusion 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 one or more material assumptions do not have a reasonable basis or are hypothetical (adverse conclusion); or

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<sup>60</sup> See ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* for further guidance.

<sup>61</sup> 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.

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- (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 prospective financial information of undetected misstatements, if any, could be both material and pervasive (disclaimer of conclusion); or
  - (d) express a qualified or adverse conclusion, as appropriate, in the assurance report when the responsible party has not made required disclosures related to material uncertainties in respect of going concern<sup>62</sup> in the document. (Ref: Para. X)
130. 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 assurance engagement. (Ref: Para. X)

**Preparing the Assurance Report**

131. The assurance practitioner shall provide a written assurance report to the responsible party containing a clear expression of the assurance practitioner's conclusion on the prospective financial information included in the document. (Ref: Para. A101)
132. If applicable, the assurance practitioner's conclusion on the prospective financial information shall be clearly separated from other types of financial information within the assurance report. (Ref: Para. A102)

***Basic Elements of the Assurance Report***

133. The assurance report shall include, at a minimum, each of the following elements: (Ref: Para. A103-A104)
- (a) a statement that clearly indicates the report is an independent assurance report;
  - (b) an addressee;

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<sup>62</sup> See ASA 570 *Going Concern* for further guidance.

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- (c) a background section that identifies the purpose of the assurance report, and where applicable, the fact that it will be included in the document;
- (d) a scope section that:
  - (i) identifies the entity(s) whose prospective financial information is the subject of the assurance report and where applicable, the responsible party;
  - (ii) identifies the source of the prospective financial information being reported on, the time period covered; and where applicable, an 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) describes the stated basis of preparation selected by the responsible party in the preparation of the prospective financial information;
  - (iv) identifies the type of assurance required on different elements of the prospective financial information and the nature and extent of procedures performed supporting that type of assurance;
  - (v) states that the assurance engagement was performed in accordance with this ASAE;
  - (vi) 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) if applicable, a statement that the assurance engagement did not include updating or re-issuing any previous audit or review report on financial information used as the source of the prospective financial information;
- (f) the assurance practitioner's assurance conclusion on the different elements of the prospective financial information:

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- (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 consequently that
  - ◆ the prospective financial information itself is unreasonable; or
- (ii) with limited assurance and a modified conclusion, a clear description of all 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 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

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- accordance with the stated basis of preparation being [insert details];
- ◆ 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 reasonable assurance and a modified conclusion(s), a clear description of all the reasons for the modification(s) related to a particular aspect of the prospective financial information, 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 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;
- (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 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;
- (i) 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; and



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- (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 assumptions<sup>63</sup> in the prospective financial information and confirmation that they have no significant impact upon the projected outcome;
  - (j) an independence, 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.
134. 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 assurance engagement if not, additional explanation in the assurance practitioner's report can mitigate possible misunderstanding.
135. The assurance practitioner shall not report compliance with this ASAE or other AUASB Standards in the assurance report unless it includes, at a minimum, each of the elements identified in paragraph 134 of this ASAE.

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

(Ref: Para. A105-0)

136. The assurance practitioner shall consider the requirements of:
- (a) applicable law or regulation when providing consent in writing to the inclusion of the assurance report in the document; and
  - (b) the results of the assurance practitioner's consideration of other information included in the document as required by paragraphs 113 to 114(e) inclusive of this ASAE

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<sup>63</sup> See RG 170.

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137. 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.

**Documentation** (Ref: Para. A106-A107)

138. The assurance practitioner shall prepare documentation on a timely basis.
139. The assurance practitioner shall prepare documentation that is sufficient to enable an experienced assurance practitioner, having no previous connection with the assurance engagement, to understand:
- (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 assurance engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.

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**Subsection: Pro Forma Forecast**

140. This section applies when the assurance practitioner is required to provide assurance on the pro forma forecast financial information itself. 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*. Paragraphs 142 to 149 inclusive of this ASAE deal with additional special considerations in the application of the prospective financial information requirements in paragraphs 85 to 139 inclusive of this ASAE to prospective financial information with pro forma adjustments applied to it, resulting in a pro forma forecast.

**Assurance Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. A108-0)

141. In addition to the requirements in paragraphs 23 and 24 of this ASAE, the assurance practitioner shall, prior to agreeing the terms of the assurance engagement, obtain agreement from the responsible party that it accepts its responsibility for:
- (a) selecting the base financial information used 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 forecast;
  - (d) complying with the requirements of all applicable laws and regulation;<sup>64</sup> and
  - (e) the preparation of the pro forma forecast for the time period(s) stated, in accordance with the stated basis of preparation.

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<sup>64</sup> For example refer RG 228 and RG 230 *Disclosing non-IFRS financial information* (December 2011) issued by ASIC.

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Other Factors Affecting Engagement Acceptance

142. In addition to the requirement in paragraph 94 to 101 inclusive of this ASAE, the assurance practitioner shall only accept the engagement when the level of assurance to be provided on the pro forma forecast is not higher than the level of assurance expressed on the base financial information, if it was previously audited or reviewed.

**Planning the Assurance Engagement**

*Planning Activities*

143. In addition to the requirements in paragraphs 94 to 95 inclusive of this ASAE, the assurance practitioner's planning procedures shall include: (Ref: Para. X)
- (a) determining the source of the base financial information, whether it has been previously audited or reviewed, and the type of audit opinion or review conclusion was issued;
  - (b) determining the additional procedures required if the base financial information has not been previously audited or reviewed;
  - (c) understanding the basis for, and calculations underlying, the pro forma adjustments; (Ref: Para. A109-A110) and
  - (d) determining any applicable law or regulation covering the preparation of a pro forma forecast.<sup>65</sup>

**Performing the Assurance Engagement**

*Assurance Procedures*

144. In addition to the requirements in paragraphs 102 to 109 inclusive of this ASAE, the assurance practitioner shall design and perform the following procedures, at a minimum, on the pro forma forecast:
- (a) if the source of the base financial information has not been previously audited or reviewed, perform such procedures as is necessary in the assurance practitioner's professional

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<sup>65</sup> Refer RG 230 for further guidance.

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judgement to obtain sufficient appropriate evidence on which to rely for the assurance engagement purposes;

- (b) determining the differences, if any, between the basis of preparation of the pro forma forecast and that of the most recent audited or reviewed historical financial information, and assessing the reasons for any differences;
- (c) consider the reasonableness and appropriateness of the stated basis of preparation and time period covered by the pro forma forecast;
- (d) determining whether the pro forma adjustments selected and applied by the responsible party are consistent with the stated basis of preparation, supported by appropriate evidence, and are arithmetically correct;<sup>66</sup>
- (e) determining whether the resultant pro forma forecast reflects the results of applying the pro forma adjustments to the base financial information and is itself reasonable;
- (f) assessing whether the stated basis of preparation of the pro forma forecast is adequately described in the financial information section of the document;
- (g) assessing whether the stated basis of preparation provides a reasonable basis for presenting the significant effects attributable to the event(s) or transaction(s).

145. 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; and/or

the assurance shall consider the implications for the assurance engagement and the assurance report.

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<sup>66</sup> Refer RG 170 and RG 228 for further guidance on the nature of pro forma adjustments.

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**Written Representations**

146. In addition to the requirements in paragraphs 122 to 125 inclusive of this ASAE, the assurance practitioner shall request the responsible party to include in the written representation letter an acknowledgement of the responsible party's responsibilities for:
- (a) the preparation and presentation of the pro forma forecast based on the underlying assumptions and the stated basis of preparation;
  - (b) determining the applicable time periods to be covered by the pro forma forecast; and
  - (c) selecting and applying the pro forma adjustments used in the preparation of the pro forma forecast.

**Forming the Assurance Conclusion**

147. In addition to the requirements in paragraphs 126 to 131 inclusive of this ASAE, the assurance practitioner shall form a conclusion on the pro forma forecast.

**Preparing the Assurance Report**

*Basic Elements of the Assurance Report*

148. In addition to the requirement in paragraphs 134 and 135 of this ASAE, the assurance report shall include, at a minimum, each of the following elements:
- (a) a scope section that:
    - (i) identifies the pro forma forecast being reported on, including the time period covered;
    - (ii) if applicable, identifies whether any historical financial information used as the base for the pro forma forecast has been previously audited or reviewed; and
  - (b) the assurance practitioner's assurance conclusion on the pro forma forecast:

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- (i) with limited assurance and an unmodified conclusion, a statement 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; and consequently that
  - ◆ the pro forma forecast itself is unreasonable; or
- (ii) with limited assurance and a modified conclusion, a clear description of all 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, and

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- ◆ 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
- (c) with reasonable assurance and a modified conclusion(s), a clear description of all the reasons for the modification(s), related to a particular aspects of the pro forma forecast with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report.

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## **Application and Other Explanatory Material**

### **Scope of this Standard on Assurance Engagements**

#### *Type of Assurance* (Ref: Para. 7)

- A1. The assurance practitioner uses professional judgement in determining what type of assurance is appropriate to provide on the financial information or aspects of it and take into account factors such as evidence available to support the financial information, nature and purpose of the financial information and engagement circumstances. The assurance practitioner ordinarily undertakes engagements to report on non-historical financial information related to a fundraising as a limited assurance engagement. Historical financial information may be limited or reasonable. Additionally, some non-historical financial information may involve differing levels of assurance on different elements depending on entity requirements.

#### *Non-Assurance Services* (Ref: Para. 8)

- A2. The assurance practitioner may agree to provide non-assurance services in accordance with the agreed terms of an engagement.<sup>67</sup> 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 or professional standards when considering whether to agree to provide such non-assurance services. If non-assurance services are agreed to be provided, they may include in a separate engagement letter from the assurance services, or combined into a single engagement letter.
- A3. Examples of non-assurance services that may be performed by the assurance practitioner include:
- (a) the preparation and issuance of a Materiality Advice Letter to an entity's due diligence committee related to the fundraising;

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<sup>67</sup> See *Framework for Assurance Engagements* (April 2010) for further guidance on the elements of an assurance engagement (Para. 20) and consulting engagements (paragraphs 12-Aus 16.1).

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- (b) participation in the entity's due diligence committee<sup>68</sup>;
- (c) the preparation of taxation information to be disclosed in the document;
- (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);<sup>69</sup>
- (e) comfort letter engagements performed by an assurance practitioner who is also the appointed auditor of the entity;<sup>70</sup>
- (f) accounting services such as compiling financial information that the assurance practitioner will not provide any assurance on.

**Inability to Comply with the Requirements of this ASAE or Other AUASB Standards** (Ref: Para. 21)

- A4. Implications for the assurance engagement include considering whether to continue to perform the assurance engagement, issuing a modified conclusion in the assurance report or refusing to issue the assurance report. The assurance practitioner discusses the implications with the responsible party.

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<sup>68</sup> See APES 350 for further guidance.

<sup>69</sup> See ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*, issued by the AUASB.

<sup>70</sup> See ASRS 4450 *Comfort Letter Engagements*

## **Section A: Historical Financial Information**

### **Assurance Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. 1-23)

- A5. 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. It is however the responsible party who retains responsibility for such information. The only exception to this is that the responsible party is not responsible for the content of reports prepared by other parties/experts, which are included, by consent, in the document.
- A6. 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 assurance engagement.

### **Agreeing on the Terms of the Assurance Engagement**

- A7. Acknowledgement by the responsible party in writing avoids misunderstandings of the agreed terms, that the responsible party accepts its responsibilities and establishes a basis for a common understanding of the responsibilities of each party. The responsible party who is requested to sign the assurance engagement letter should be the ultimate responsible party of the entity, or an authorised representative/officer being those parties which will take responsibility for the document. If these parties are not the same parties which initially agreed the engagement terms or signed the engagement letter, the assurance practitioner should re-issue the engagement letter for their signature. (Ref: Para. 26)
- 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 assurance engagement, taking into account that applicable law, regulation, or a pre-existing contract may acknowledge or indicate such responsibility in sufficient detail the engagement terms. For example, under the *Corporations Act*

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2001,<sup>71</sup> 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 terms. (Ref: Para. 26)

- A9. The assurance practitioner exercises professional judgement as to what assurance procedures may be summarised in the assurance engagement letter, taking into account the nature of the financial information, and the assurance engagement circumstances. Examples of procedures that could be included are:
- (a) analytical review procedures;
  - (b) review and consideration of key work papers, accounting records and other documents prepared by the responsible party and other experts;
  - (c) enquiry of, and discussion with, the responsible party and other parties related to the source and stated basis of preparation used for the historical financial information;
  - (d) the examination of, on a test basis, evidence supporting the historical financial information; and
  - (e) consistency checks in the stated basis of preparation compared to the accounting policies used by the entity in the preparation of the historical financial information, and disclosed in the document.
- A10. The assurance practitioner may include such terms and conditions as in the assurance practitioners' professional judgement are appropriate to the assurance engagement. They may include:
- (a) important deadlines/timelines for the completion of the assurance engagement. This may include deadlines such as the expected date of publication of the document and when the assurance practitioner's consent is required;

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<sup>71</sup> See Section 717 of the *Corporations Act 2001* for an overview of the procedures for offering securities.

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- (b) arrangements regarding the planning and performance of the assurance engagement, including the composition of the assurance engagement team (including any experts);
- (c) arrangements for the assurance practitioner to:
  - (i) attend meetings such as the due diligence committee meetings (if appropriate under the terms of the assurance engagement);<sup>72</sup>
  - (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; and
  - (iv) communicate directly with the entity's external auditor and/or other professional advisers regarding matters relevant to the historical financial information;
  - (v) provide consent to the inclusion of the assurance practitioners' assurance report in the document. If the document is a prospectus, prepared in accordance with the *Corporations Act 2001*,<sup>73</sup> 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 their assurance report in both forms.<sup>74</sup>

A11. Appendix 2 provides an illustrative example engagement letter for an assurance engagement.

**Changes in the Terms of the Engagement**

A12. 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

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<sup>72</sup> See APES 350 for further guidance.

<sup>73</sup> See Section 716 of the *Corporations Act 2001*.

<sup>74</sup> See ASIC RG 107 *Electronic Prospectuses*.

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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 assurance 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. 28)

- (a) a change that relates to historical financial information that is incorrect, incomplete or otherwise unsatisfactory;
- (b) limiting time available to perform the assurance 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 assurance engagement by the date required unachievable.

A13. 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. 29)

**Planning the Assurance Engagement**

A14. The assurance practitioner uses professional judgement to determine the extent of the understanding that is needed of the nature of the historical financial information and other assurance engagement circumstances.<sup>75</sup> (Ref: Para. 31)

*Planning Activities*

A15. 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

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<sup>75</sup> The concepts and discussions on complete set of financial statements relevant to an audit engagement are contained in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph Aus 13.1, and may be helpful in determining the components of a complete set of financial statements applicable to an assurance engagement.

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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 some of the entities' 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 drafted and/or finalised at the time of engagement planning, so gaining an understanding of the other information to be included in the document is unlikely. (Ref: Para. 32)

- A16. Understanding the historical financial information involves:  
(Ref: Para. 33)
- (a) understanding the source of the historical financial information (audited/reviewed financial information or otherwise);
  - (b) understanding the stated basis of preparation used by the responsible party to meet their requirements in the preparation of the historical financial information, including its relevance, completeness, reliability, and understandability;
  - (c) understanding the basis of preparation of the historical financial information (including the extent to which mathematical and computer-assisted techniques are used) and comparisons between this and the most recently audited or reviewed historical financial information;
  - (d) obtaining an understanding of whether comparative information is to be included in the document, and whether it will be restated;
  - (e) identifying relevant financial information available in the public domain; and
  - (f) developing expectations for use when performing analytical procedures.

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- A17. 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. 34(e))

*Reliance on the work performed by others*

- A18. It is often the case that the other assurance practitioner will not permit reliance on a previously issued audit or review report. This is due to the fact that the audit or review report is prepared and issued for a purpose other than the subject of the current assurance engagement. In the absence of the assurance practitioner being able to place reliance, the assurance practitioner considers what additional assurance procedures may be required on the base financial information, in order to obtain sufficient and appropriate evidence necessary for the assurance engagement.<sup>76</sup> (Ref: Para. 37)

**Performing the Assurance Engagement**

*Assurance Procedures* (Ref: Para. 39)

- A19. 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.

*Adjustments Identified by the Assurance Practitioner*

- A20. Such a communication may be oral or in writing, and should be done as soon as the matter is 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 historical financial information. The assurance practitioner is then able to evaluate the evidence provided to

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<sup>76</sup> 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.



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consider if the responsible party's decision on the adjustment(s) is acceptable to the assurance practitioner. (Ref: Para. 1)

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

(Ref: Para. 46)

- A21. The assurance practitioner uses professional judgement in determining the sufficiency and appropriateness of the evidence obtained based on the procedures performed. 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.<sup>77</sup>
- A22. If the assurance practitioner identifies that the historical financial information may be materially misstated, and hence its disclosure in the document potentially misleading, the assurance practitioner carries out additional procedures, or performs more extensive procedures to enable the assurance practitioner to form a conclusion, including whether a modified conclusion is required.

**Other Information Included in the Document** (Ref: Para. 47-48(e))

- A23. The assurance practitioners' 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 misstatement which may impact the historical financial information on which the assurance practitioner provides assurance. 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 previously obtained and possibly, about the basis for the assurance practitioner's conclusion in the assurance report. Assurance practitioners need to pay particular attention to the form and content of the other information (for example if it is in graphical or table form) when looking for inconsistencies. When discussing an apparent material misstatement of fact with the responsible party, the assurance practitioner may not be able to sufficiently evaluate the validity of certain information

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<sup>77</sup> The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500 *Audit Evidence*, and may be helpful in determining the evidence applicable to an assurance engagement.

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and the responsible party's responses to the assurance practitioner's enquiries, and may conclude that valid differences of opinion or judgement exist.

**Going Concern Considerations**

- A24. 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. (Ref: Para. 49)
- A25. When considering whether the entity is a going concern<sup>78</sup>, the assurance practitioner ordinarily takes into account the entity's prepared forecasts, forward cash flow statements, 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 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 factors may include: (Ref: Para. 50)
- (a) A review of recently prepared forecasts, cash flow statement, working capital statement or statement of financial performance;
  - (b) unequivocal financial support provided from another entity which has the capacity to provide support, or
  - (c) 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.
- A26. 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

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<sup>78</sup> The concepts and discussions on performing a going concern assessment of an entity, relevant to an audit engagement are contained in Auditing ASA 570 *Going Concern*, and may be helpful in performing an going concern assessment in an assurance engagement.

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going concern. Consideration should be given to any proposed underwriting of any capital raising, and the circumstances in 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. (Ref: Para. 50)

- A27. 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: (Ref: Para. 51)
- (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. 52-53)

- A28. 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:
- (a) the agreed terms of the engagement for reporting of subsequent events;
  - (b) the potential for such events to materially affect the historical financial information in the document in terms of requiring comment on, or adjustment to, the historical financial information;
  - (c) whether such event(s) or transaction(s) cause the historical financial information to be potentially misleading or deceptive;

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- (d) whether such event(s) or transaction(s) are within the ordinary business of the entity; and
- (e) the requirements of applicable law, regulation, or professional standards.<sup>79</sup>

**Consideration of Events Identified after the date of the Assurance Report** (Ref: Para. 54- 55)

A29. If there are material deficiencies or significant matters 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.

A30. If such significant matters with a potentially material impact on the historical 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 if there are any applicable law, regulation, agreement or 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. 56-58)

A31. The assurance practitioner requests and obtains a written representation letter from the responsible party at the completion of

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<sup>79</sup> The concepts and discussions on subsequent events relevant to an audit engagement are contained in Auditing Standard ASA 560 *Subsequent Events*, and may be helpful in determining the principles applicable to an assurance engagement.

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the assurance engagement.<sup>80</sup> 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, and therefore the assurance practitioner only needs to request the inclusion of such matters in the written representation letter if the assurance practitioner considers it appropriate in the assurance engagement circumstances.

- A32. Appendix 3 provides an illustrative written representation letter.
- A33. 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 historical 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 provided 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.
- A34. If the responsible party does not provide such a written representation letter, or refuses to provide it, the assurance practitioner may qualify or issue a disclaimer of conclusion in the assurance report, based on a limitation on the scope of the assurance engagement. The assurance practitioner may also include a restriction paragraph on the distribution of, or use of, the assurance report.
- A35. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation of the historical financial information in the document, when such

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<sup>80</sup> 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.

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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** (Ref: Para. 1)

- A36. Applicable law or regulation may preclude the assurance practitioner from expressing a modified conclusion in an assurance report that is 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 they are able 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 they may have, for example to the entities due diligence committee.

*Emphasis of Matter Paragraph* (Ref: Para. X)

- A37. 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 in the document. If the responsible party has adequately disclosed a description of the principal event(s) or condition(s) that cast significant doubt on the entity's going concern ability, and the fact that a material uncertainty exists related to the event(s) or condition(s) and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. The assurance practitioner then is able to express an unmodified conclusion, 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 the responsible party has not, in the assurance practitioner's professional judgement, included adequate disclosure then the assurance practitioner expresses a qualified conclusion or adverse conclusion, as appropriate.

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**Preparing the Assurance Report**

- A38. The assurance report may be prepared solely in respect of historical financial information or be a composite report where two or more of types of financial information are the subject of the assurance report (for example historical and prospective financial information). (Ref: Para. 66)
- A39. If the assurance practitioner is preparing a composite assurance report the assurance practitioner needs to ensure that:
- (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 each type of financial information. (Ref: Para. 66)

***Basic Elements of the Assurance Report*** (Ref: Para. 68)

- A40. 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:
- (a) cross referenced and consistent with other information disclosed in the public document; and
  - (b) positioned in the public document in relation to the historical financial information on which the assurance practitioner provides a conclusion.<sup>81</sup>

- A41. Appendix 4 contains illustrative examples of assurance reports.

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

(Ref: Para. 71-72)

- A42. 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

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<sup>81</sup> See ASIC's RG 170.

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the assurance report is included in that public document.<sup>82</sup> Such consent is ordinarily provided by way of 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 fact related to the historical financial information which remain uncorrected by the responsible party, or the assurance practitioner does not consider the assurance report will be used for the intended purpose, the assurance practitioner may not provide consent.

**Documentation** (Ref: Para. 73-74)

- A43. Sufficient appropriate documentation<sup>83</sup> 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.
- A44. 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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<sup>82</sup> See Section 716 of the *Corporations Act 2001*.

<sup>83</sup> 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.



### **Subsection: Pro Forma Historical Financial Information**

- A45. In Australia, assurance practitioners are ordinarily requested to express a conclusion on the pro forma financial information itself and it is compilation. In circumstances where the assurance practitioner cannot access the pro forma financial information itself, it may be appropriate for the assurance practitioner and responsible party to agree that the engagement will be on the compilation of the pro forma financial information. Refer ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*. (Ref: Para 75)

#### **Agreeing on the Terms of the Assurance Engagement** (Ref: Para. 78)

- A46. There may be circumstances in which undertaking an engagement to report on pro forma historical financial information itself is not possible. For example, the fundraising may involve a takeover where the assurance practitioner or the responsible party of the entity is not able to access the other entity's financial information, which may or may not have been subject to an audit or review, by another assurance practitioner, or there is insufficient time in which to perform the work to enable a report on the pro forma historical financial information. In such circumstances, the responsible party may request the assurance practitioner to undertake an engagement to report on the compilation of the pro forma historical financial information, rather than the pro forma historical financial information itself.
- A47. Ordinarily the assurance practitioner only provides limited assurance on pro forma historical financial information, as the adjustments made to the base financial information (which is historical) are based on a stated basis of preparation, which are selected by the responsible party. The assurance practitioner has no responsibility under the terms of the assurance engagement to perform an assessment of the appropriateness or otherwise of the selected stated basis of preparation.

#### **Planning the Assurance Engagement**

##### *Planning Activities* (Ref: Para. 79)

- A48. In addition to the application and other explanatory material in paragraphs X and A21 inclusive, the following planning activities assist the assurance practitioner in the planning process:

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- (a) understanding what historical financial information has been selected to use as the base for the preparation of the pro forma historical financial information;
- (b) understanding whether the base financial information has been audited or reviewed, and if so, the extent of work performed, and the type(s) of audit opinion or review conclusion expressed;
- (c) discussing with the responsible party what accounting policies have been adopted in the stated basis of preparation;
- (d) understanding any recent key changes in the entity's business activities, and how they affect the pro forma historical financial information;
- (e) identifying the pro forma adjustments that have been made, and the event(s) or transaction(s) or events the effects of which they intend to record;
- (f) understanding the methodology used by the responsible party for adjusting the base financial information by the pro forma adjustments;
- (g) considering whether the use of experts<sup>84</sup> or other persons with specialised skills is required for the assurance engagement. They may be used, for example, in determining:
  - (i) evaluating pro forma adjustments, including whether they were prepared in accordance with the stated basis of preparation;
  - (ii) the suitability of the stated basis of preparation; and
  - (iii) assessing the impact of certain contractual provisions on the pro forma historical financial information.

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<sup>84</sup> The concepts and discussions on placing reliance on the work of another auditor relevant to an audit engagement are contained in ASA 620 *Using the Work of an Auditor's Expert*, which may be useful to assurance practitioners when determining the extent, if any, of such reliance in the conduct of an assurance engagement.

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**Performing the Assurance Engagement** (Ref: Para. 80)

*Assurance Procedures*

- A49. If the assurance practitioner cannot obtain sufficient appropriate evidence on the base historical financial information, the assurance practitioner considers the implications for the assurance engagement, including whether to withdraw from the engagement.  
(Ref: Para. 80(a))
- A50. Ordinarily the most recent audited or reviewed financial statements will also be included in the document, together with the audit opinion or review conclusion

**Preparing the Assurance Report**

*Basic Elements of the Assurance Report* (Ref: Para. 84(a)(ii))

- A51. 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. The basis is ordinarily the recognition and measurement principles contained in the Australian Accounting Standards, and the accounting policies adopted by the responsible party, applied to the base unadjusted historical financial information and the pro forma adjustments.

## **Section B: Prospective Financial Information**

### **Assurance Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. X-86)

- A52. 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 it is the responsible party who retains responsibility for such information. The only exception to this is that the responsible party is not responsible for the content of reports prepared by other parties/experts, which are included, by consent, in the document.
- A53. 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 assurance engagement.
- A54. The nature of prospective financial information being 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 if evidence permits, a combination of a limited assurance and reasonable assurance on different elements of the prospective financial information. Evidence may be available to support the underlying assumptions, however such evidence is itself generally future orientated and, therefore, speculative in nature. Due to this, the assurance practitioner is not able to express any assurance as to whether the results shown in the prospective financial information will be achieved. Further, given the nature of the evidence available in assessing the reasonableness of the assumptions on which the prospective financial information is based, it is ordinarily difficult for the assurance practitioner to obtain a level of satisfaction sufficient to be able to express reasonable assurance that the assumptions are free of material misstatement, consequently, the assurance practitioner is ordinarily able to express reasonable assurance that the prospective financial information has been prepared on the basis of those assumptions, or presented fairly in accordance with the entity's stated basis of preparation.

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- A55. The assurance practitioner use professional judgement in assessing whether the responsible party has reasonable grounds for preparing the prospective financial information, taking into account the engagement circumstances, the stated basis of preparation, available evidence, the responsible party's purpose in preparing the prospective financial information, and the degree of uncertainty around key assumptions used, given their forward orientated/speculative nature. (Ref: Para. 1(a)(i))

**Other Factors Affecting Engagement Acceptance**

- A56. In circumstances where the assurance practitioner is a member of a firm which is also providing to the entity non-assurance services in respect of the document, the assurance practitioner should consider relevant ethical requirements (including independence), and the requirements of applicable law, regulation or professional standards when considering whether to accept the assurance engagement. Examples of non-assurance services commonly provided include the preparation of taxation information and other consulting services. The provision of such non-assurance services by the assurance practitioner is not within the scope of this ASAE.<sup>85</sup> (Ref: Para. 86)
- A57. In obtaining an preliminary understanding of whether the assumptions have a reasonable basis, the assurance practitioner considers matters such as: (Ref: Para. 87(a)(ii))
- (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

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<sup>85</sup> See APES 350 *Participation by Members in Public Practice in Due Diligence Committees in Connection with a Public Document* (March 2011), issued by the Accounting Professional and Ethical Standards Board.

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- (e) if applicable, the assurance practitioner's past experience with the accuracy of the entity's previous prospective financial information, as against actual results.
- A58. If base 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 base financial information is not historical, the assurance practitioner either designs procedures to obtain sufficient appropriate evidence to support the best-estimate assumptions, or 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. 87(a)(vii))
- A59. 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. 87(c))
- (a) the prospective financial information does not have a reasonable basis for inclusion in a public document (for example it is a projection);<sup>86</sup>
  - (b) the prospective financial information is materially affected by hypothetical assumptions;
  - (c) there will be significant limitations on the scope of the assurance practitioner's work; or
  - (d) 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.
- A60. The type of assurance that the assurance practitioner agrees to provide on certain aspects of the prospective financial information may include an assessment of the following: (Ref: Para. 87(d))

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<sup>86</sup> 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.

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- (a) the engagement circumstances, including the nature (e.g. complexity or simplicity) and type of the entity (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.

**Agreeing on the Terms of the Assurance Engagement**

- A61. Acknowledgement by the responsible party in writing avoids misunderstandings of the agreed terms, that the responsible party accepts its responsibilities and establishes a basis for a common understanding of the responsibilities of each party. The responsible party who is requested to sign the assurance engagement letter should be the ultimate responsible party of the entity, or an authorised representative/officer being those parties which will take responsibility for the document. If these parties are not the same parties which initially agree the engagement terms or signed the engagement letter, the assurance practitioner should re-issue the engagement letter for their signature. (Ref: Para. 89)
- A62. In the absence of a written acknowledgement of responsibility by the responsible party by acceptance of the assurance engagement letter, the assurance practitioner needs to consider whether it is appropriate to accept the assurance engagement. Acceptance may be appropriate when, for example, other sources, such as applicable law, regulation, or a contract, acknowledge, or indicate such responsibility in sufficient detail the engagement terms. For example, under the *Corporations Act 2001*,<sup>87</sup> the directors of an entity are deemed responsible for the financial information included in a public document used in offering securities. (Ref: Para. 89)

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<sup>87</sup> See Section 717 of the *Corporations Act 2001* for an overview of the procedures for offering securities.

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- A63. The assurance practitioner exercises professional judgement as to what assurance procedures are summarised in the assurance engagement letter, taking into account the nature of the financial information, and the assurance engagement circumstances. Examples of procedures that could be detailed are: (Ref: Para. 1(a))
- (a) analytical review procedures;
  - (b) review and consideration of key work papers, accounting records and other documents prepared by the responsible party and other experts;
  - (c) enquiry of, and discussion with, the responsible party, those charged with governance, management, experts, and other parties related to the prospective financial information;
  - (d) examination, on a test basis, of evidence supporting the prospective financial information, and the assumptions used; and
  - (e) consistency checks in the application of the stated basis of preparation as compared to the accounting policies adopted by the entity in the preparation of the prospective financial information, and disclosed in the document.
- A64. The assurance practitioner may include such terms and conditions as in the assurance practitioners' professional judgement are appropriate to the assurance engagement. They may include: (Ref: Para. 90(d))
- (a) important deadlines/timelines for the completion of the assurance engagement. This may include deadlines such as the expected date of publication of the document and when the assurance practitioner's consent is required;
  - (b) arrangements regarding the planning and performance of the assurance engagement; including the composition of the assurance engagement team (including any experts);
  - (c) arrangements for the assurance practitioner to:



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- (i) attend meetings such as the due diligence committee meetings (if appropriate under the terms of the assurance engagement);<sup>88</sup>
- (ii) receive draft and final versions of the document in a timely manner when requested; and
- (iii) use the service(s) of the responsible party's experts and/or the assurance practitioner's experts; and
- (iv) communicate directly with the entity's external auditor and/or other professional advisers regarding matters relevant to the prospective financial information.
- (v) provide consent to the inclusion of the assurance practitioners' assurance report in the document. If the document is a public document, prepared in accordance with the *Corporations Act 2001*,<sup>89</sup> the form of the consent must be consistent with how the document is intended to be distributed. For example, entities intending to distribute the document in both electronic and paper forms must also obtain the assurance practitioner's consent to the inclusion of their assurance report in both forms.<sup>90</sup> (Ref: Para. 90(b)(iv))

A65. Appendix 2 provides an illustrative example engagement letter for a fundraising assurance engagement. (Ref: Para. 90)

**Changes in the Terms of the Assurance Engagement** (Ref: Para. 91-93)

A66. Examples of when requests from the responsible party may be received include a change to reflect 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 assurance engagement, as well as any evidence that was obtained prior to the change, prior to the assurance

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<sup>88</sup> See APES 350 *Participation by Members in Public Practice in Due Diligence Committees in Connection with a Public Document* (March 2011), issued by the Accounting Professional and Ethical Standards Board.

<sup>89</sup> See Section 716 of the *Corporations Act 2001*.

<sup>90</sup> See ASIC RG 107 *Electronic Prospectuses*.

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practitioner agreeing to the change. Changes that may be unacceptable to the assurance practitioner include:

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

A67. It is important that all changes agreed to by the responsible party and the assurance practitioner be documented in writing to ensure no misunderstanding exists between the parties of what has been agreed. (Ref: Para. 92)

**Planning the Assurance Engagement**

*Planning Activities* (Ref: Para. 95-97)

A68. Planning the assurance engagement ordinarily involves obtaining an understanding of the nature of the prospective financial information, its preparation, and other assurance engagement circumstances to identify and understand event(s) and transaction(s) that may have a significant impact on the prospective financial information, or on the assurance report. The assurance practitioner is required to use professional judgement to determine the extent of the understanding that is needed of the nature of the prospective financial information and other assurance engagement circumstances. The assurance practitioner ordinarily considers whether that understanding is sufficient to assess the risks that the prospective financial information may be materially misstated, and in order to be able to evaluate all significant assumptions used in its preparation.

A69. The type of planning activities the assurance practitioner performs depends on the level of understanding of the entity the assurance practitioner may already have. Such an understanding may have been obtained from prior audit or review engagements performed. If this is the case, the assurance practitioner would ordinarily have acquired an understanding of the entity and its operations. This understanding would ordinarily include knowledge of the entity's

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management skills and resources, information technology systems (including financial systems). This understanding would need to be updated to ensure it had not changed in the current time period. It could then be used, for example, to provide a measure for assessing the reasonableness of the assumptions used in the preparation of the prospective financial information. Note that in certain engagement circumstances, the assurance practitioner may not be able to obtain such a detailed understanding. For example, in a takeover or merger fundraising transaction, the assurance practitioner may not be able to access one of the entities' 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.

- A70. If the assurance practitioner does not have a prior understanding of the entity, the following planning activities assist the assurance practitioner in determining the nature, timing and extent of procedures to be performed:
- (a) understanding whether the entity is in a start-up phase, or has been in operation for a number of years. If the entity is in start-up phase, the assurance practitioner ordinarily expands their planning activities so as to be able to obtain sufficient knowledge and understanding of the entity; and
  - (b) understanding the nature and type of entity including its size, complexity, ownership and regulatory structure, strategies, industry, key products/services, competitors, regulatory environment, management structure, and financial resources.
- A71. If the entity is relying on raising capital as part of the fundraising to ensure its going concern in future periods, the assurance practitioner takes this into consideration when planning the nature, timing and extent of procedures to be performed on the prospective financial information. For example, a signed underwriting agreement may be a mitigating factor.
- A72. Understanding the prospective financial information involves:
- (a) understanding whether the prospective financial information is a forecast, a projection, or a combination of a forecast and projection;

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- (b) understanding the stated basis of preparation used by the responsible party to meet their requirements in the preparation of the prospective financial information, including its relevance, completeness, reliability, neutrality, and understandability;
- (c) understanding the basis of preparation of the prospective financial information (including the extent to which statistical, mathematical and computer-assisted techniques are used) and comparisons between this and the most recent historical financial information;
- (d) determining the accuracy of any forecast(s) prepared in prior time periods, and the reasons for material variances;
- (e) obtaining an understanding of whether comparative information is to be included in the document, and whether it will be restated;
- (f) identifying relevant financial information available in the public domain; and
- (g) developing expectations for use when performing analytical procedures.

A73. 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 prospective 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.

*Reliance on the work performed by Others*

A74. It is often the case that the other assurance practitioner will not permit reliance on a previously issued audit or review report. This is due to the fact that the audit or review report is prepared and issued for a purpose other than the subject of the current assurance engagement. In the absence of the assurance practitioner being able to place reliance, the assurance practitioner considers what additional assurance procedures may be required on the base

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financial information, in order to obtain sufficient and appropriate evidence necessary for the assurance engagement.<sup>91</sup> (Ref: Para. 100)

**Performing the Assurance Engagement**

*Assurance Procedures*

- A75. The assurance procedures ordinarily involve performing analytical review of the prospective financial information, enquiries of the responsible party and other relevant parties, and obtaining evidence. Where the assurance practitioner identifies matters requiring further investigation, further assurance procedures are designed and performed, to reduce assurance engagement risk to an appropriate level. (Ref: Para. 102)

*Source of the Prospective Financial Information (Ref: Para. 102(j))*

- A76. The extent of procedures and evidence required depends on the agreed terms of the assurance engagement, and type of assurance to be obtained. When designing and performing assurance procedures, the assurance practitioner considers the adequacy, relevance and reliability of the information obtained to be used as evidence.<sup>92</sup> The assurance practitioner ordinarily performs the following assurance procedures on the source of the prospective financial information:
- (a) evaluating the adequacy and reliability of the base financial information, including the extent of evidence (if any) provided by prior audits or reviews;
  - (b) if the source of the prospective financial information is a forecast:
    - (i) 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;

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<sup>91</sup> 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.

<sup>92</sup> The concepts and discussions on obtaining evidence relevant to an audit engagement are contained in ASA 500 *Audit Evidence*, which may be useful to assurance practitioners when determining the extent, if any, of evidence required in the conduct of an assurance engagement.

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- (ii) considering the basis of preparation of the forecast; and
  - (iii) understanding the extent to which statistical, and mathematical modelling, computer-assisted techniques and other techniques have been used, and the reliability thereof; or
- (c) if the source of the prospective financial information is a mixture of a forecast and historical financial information:
  - (i) considering if the historical financial information has been previously audited or reviewed, assessing the impact of the type of audit opinion or review conclusion expressed; and where possible, reading the associated audit or review working papers relating to the entity's financial report to identify any matters that may affect the source of the prospective financial information or the prospective financial information itself; or
  - (ii) evaluating the appropriateness and reliability of the historical financial information if it has not been previously audited or reviewed, and agreeing the source of the prospective financial information to underlying accounting records.

**Assumptions**

- A77. The assurance practitioner's procedures on responsible party's assumptions to satisfy themselves of their reasonable grounds ordinarily include: (Ref: Para. 1(a))
- (a) reading the comparable financial report and, as appropriate, the most recent annual or interim financial information, as this may be a useful starting point for assessing the reasonableness of the assumptions used in the preparation of the prospective financial information; and
  - (b) understanding the source and reliability of the evidence supporting the assumptions, including:
    - (i) if it is verifiable;

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- (ii) considering the facts or circumstances in light of historical financial information; including whether any reclassifications or adjustments have been made to reflect unusual or non-recurring items, or to correct known errors and uncertainties;
- (iii) understanding the methods used to develop and apply assumptions, and the extent to which they are affected by the responsible party's judgement or are particularly sensitive to variation;
- (iv) evaluating the extent of reliance by the responsible party on the assumptions used to support the prospective financial information;
- (v) reviewing the entity's work papers accounting records and other documents supporting the underlying assumptions;
- (vi) evaluating the degree of reliability of the assumptions, including their validity, the likelihood of the assumptions actually occurring, if they are objectively reasonable, and the effect on the prospective financial information if the assumptions vary;
- (vii) evaluating the risks or factors that may or may not be within the responsible party's control that could result in the forecast not being achieved. 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;
- (viii) evaluating whether the assumptions are within the entity's capacity to achieve;
- (ix) evaluating the documentation available to support the assumptions; and

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- (x) if there are hypothetical assumptions included, ensure they are immaterial.

**Prospective Financial Information**

- A78. The assurance practitioner's procedures on the prospective financial information itself ordinarily include: (Ref: Para. 1-1)
- (a) where applicable, considering the interrelationships of elements within the prospective financial information (for example, the statement of financial performance and the cash flow statement);
  - (b) performing analytical procedures;
  - (c) 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;<sup>93</sup> and by
    - (i) enquiring of the responsible party on the reasons for the choice of time period;
    - (ii) considering whether the time period is consistent with the entity's normal reporting period so as to make it comparable;
    - (iii) considering the operating cycle of the entity;
    - (iv) considering the degree of reliability of assumptions given the time period;
    - (v) considering whether any elapsed portion of the current time period is included in the prospective financial information;
  - (d) 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;

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<sup>93</sup> For example, see ASIC's RG 170 for guidance regarding what timeframe ASIC considers is reasonable for the inclusion of prospective financial information.



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- (e) 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);
- (f) considering any forward contracts in place that may confirm certain revenue or expense items in the prospective financial information;
- (g) consider 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;
- (h) assessing 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
- (i) performing an assessment of whether the prospective financial information is prepared on a reasonable basis, based on evidence obtained throughout the assurance engagement.

A79. The assurance practitioner determines the appropriateness of the stated basis of preparation used by the responsible party by:

- (a) understanding the process for its selection and approval;
- (b) understanding the differences, if any, compared to the most recent financial report; and
- (c) assessing the suitability of stated basis of preparation for the preparation of the prospective financial information.

A80. When the assurance practitioner obtains oral representations from the responsible party in respect of matters supporting the prospective financial information, the assurance practitioner ordinarily:

- (a) evaluates their reasonableness and consistency with other evidence obtained, including other representations;

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- (b) considers whether those making the representations can be expected to be well informed on the particular matters;
- (c) obtains appropriate corroborative evidence;<sup>94</sup> and
- (d) documents the key aspects of the oral representation.

*Adjustments Identified by the Assurance Practitioner*

- A81. Such a communication may be oral or in writing, and should be done as soon as the matter is 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 adjustments will be made to the prospective financial information. The assurance practitioner is then able to evaluate the evidence provided to consider if the responsible party's decision on the adjustment is acceptable to the assurance practitioner. (Ref: Para. 110)

**Evaluating the Sufficiency and Appropriateness of Evidence Obtained**

(Ref: Para. 112)

- A82. The assurance practitioner uses professional judgement in determining the sufficiency and appropriateness of the evidence obtained based on the procedures performed. The quantity of evidence obtained by the assurance practitioner is a measure of the sufficiency of the evidence, whilst the quality of that evidence obtained is a measure of its appropriateness; that is, its relevance and its reliability.<sup>95</sup> The assurance practitioner ordinarily expresses a limited assurance conclusion in respect of both the prospective financial information and use of the assumptions as a reasonable basis for the prospective financial information, due to the nature of the evidence available. Factors to consider include:

- (a) while evidence may be available to support the underlying assumptions, such evidence is itself generally future oriented and, therefore, speculative in nature, as distinct

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<sup>94</sup> 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.

<sup>95</sup> The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500 *Audit Evidence*, and may be helpful in determining the evidence applicable to an assurance engagement.

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from the evidence ordinarily available in the audit or review of historical financial information. Consequently, when reporting on the reasonableness of the responsible party's assumptions, the assurance practitioner ordinarily provides only limited assurance on the assumptions;

- (b) the assurance practitioner is not in a position to conclude as to whether the results shown in the prospective financial information will be achieved. If the results are expressed as a range, the assurance practitioner cannot conclude, or provide any assurance that actual results will fall within the range;
- (c) the assurance practitioner obtains evidence to support an assessment of whether any uncorrected misstatements or adjustments are material, individually or in aggregate, to the prospective financial information; and
- (d) the assurance practitioner obtains evidence as to whether the entity has complied with the stated basis of preparation.

A83. If the assurance practitioner identifies that the prospective financial information may be materially misstated the assurance practitioner carries out additional procedures, or performs more extensive procedures to enable the assurance practitioner to form a conclusion, including whether a modified conclusion is required.

**Other Information Included in the Document**

A84. Material inconsistencies and misstatements of fact in other information that come to the assurance practitioner's attention may raise doubt on the conclusions drawn from evidence previously obtained and possibly, about the basis for the assurance practitioner's conclusion in the assurance report. Assurance practitioners need to pay particular attention to the form and content of the other information (for example if it is in graphical or table form) when looking for inconsistencies. The assurance practitioner pays particular attention to areas such as: (Ref: Para. 113)

- (a) summarised financial information and its cross referencing and consistency with the assurance report;
- (b) other financial information not subject to the assurance engagement;

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- (c) the details disclosed of the assumptions used in the preparation of the prospective financial information and level of assurance obtained;
- (d) management discussion and analysis of historical and forecast results;
- (e) the terms of the fundraising, such as the nature and amount of the securities, their value and rights, as well as any minimum subscription;
- (f) the purpose of the fundraising, as well as how the proceeds will be applied;
- (g) the risks associated with the fundraising;
- (h) other relevant and material information, such as:
  - (i) explanations of how revenue would be generated, included relevant contracts;
  - (ii) other forward looking statements on the prospects of the entity in the document that may be of a qualitative nature;
  - (iii) nature and extent of related party disclosures;
  - (iv) valuation of assets; and
  - (v) subsequent losses.

A85. When discussing an apparent material misstatement of fact with the responsible party, the assurance practitioner may not be able to sufficiently evaluate the validity of certain information and the responsible party's responses to the assurance practitioner's enquiries, and may conclude that valid differences of opinion or judgement exist. (Ref: Para. 114)

**Going Concern Considerations**

A86. 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

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transaction(s) that have not occurred) and its preparation requires the exercise of considerable judgement by the responsible party.

(Ref: Para. 115)

- A87. If the assurance practitioner considers that performing a going concern assessment<sup>96</sup> 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, cash flow statements, 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 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 practitioners' professional judgement eliminate the going concern uncertainty. These factors may include: (Ref: Para. 116)
- (a) unequivocal financial support provided from another entity which has the capacity to provide support, or
  - (b) the underlying event(s) or transaction(s) giving rise to the document (for example, a capital raising) will raise sufficient funds to result in the entity becoming a going concern; and
  - (c) a signed underwriting agreement in place.
- A88. 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 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. (Ref: Para. 116)

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<sup>96</sup> The concepts and discussions on performing a going concern assessment of an entity, relevant to an audit engagement are contained in Auditing ASA 570 *Going Concern*, and may be helpful in performing a going concern assessment in an assurance engagement.

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- A89. If there are going concern issues, this may cast doubt on the reliability of the prepared forecast or other future financial information.
- A90. 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 prospective financial information from that of a going concern: (Ref: Para. 117)
- (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 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 in the assurance conclusion to draw attention to the disclosure of this fact in the prospective financial information.

**Consideration of Events Up to the Date of the Assurance Report**

(Ref: Para. 118-119)

- A91. 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.<sup>97</sup>
- A92. The type of areas to be considered include:
- (a) the potential for such event(s) or transaction(s) to materially affect the prospective financial information in the document in terms of requiring comment on, or adjustment to, the prospective financial information;
  - (b) whether such event(s) or transaction(s) are within the ordinary business of the entity; and

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<sup>97</sup> The concepts and discussions on subsequent events relevant to an audit engagement are contained in Auditing Standard ASA 560 *Subsequent Events*, and may be helpful in determining the principles applicable to an assurance engagement.

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- (c) whether such event(s) or transaction(s) cause the prospective financial information to be potentially misleading or deceptive.

**Consideration of Events Identified After the Date of the Assurance Report** (Ref: Para. 120-121)

- A93. If there are material deficiencies or significant matters 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.
- A94. If such significant matters with a potentially material impact on the prospective 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 if there are any applicable law, regulation, agreement or 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**

- A95. The assurance practitioner requests and obtains a written representation letter from the responsible party at the completion of the assurance engagement.<sup>98</sup> The assurance practitioner ordinarily provides the responsible party with a specific list of representations

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<sup>98</sup> 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.

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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 representation letter if the assurance practitioner considers it appropriate in the assurance engagement circumstances.  
(Ref: Para. 122)

- A96. Appendix 3 provides an illustrative written representation letter.  
(Ref: Para. 123)
- A97. 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 prospective 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. (Ref: Para. 1)
- A98. If the responsible party does not provide such a written representation letter, or refuses to provide it, the assurance practitioner may qualify or issue a disclaimer of conclusion in the assurance report, based on a limitation on the scope of the assurance engagement. The assurance practitioner may also include a restriction paragraph on the distribution of, or use of, the assurance report. (Ref: Para. X)
- A99. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation of the prospective 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. (Ref: Para. 126)



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**Forming the Assurance Conclusion**

- A100. Applicable law or regulation may preclude the assurance practitioner from expressing a modified conclusion in an assurance report that is 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 the assurance practitioner is able to withhold the assurance report, withdraw from the assurance engagement, or obtain legal advice. (Ref: Para. 126)

**Preparing the Assurance Report**

- A101. The assurance report may be prepared solely in respect of a particular type of financial information (prospective financial information) or be a composite report where two or more of types of financial information are the subject of the assurance report (for example historical financial information and prospective financial information). (Ref: Para. 132)
- A102. If the assurance practitioner is preparing a composite assurance report the assurance practitioner needs to ensure: (Ref: Para. 133)
- (a) that the different types of financial information are clearly identified in the document and separately referred to in the assurance report; and
  - (b) that the assurance report clearly identifies and segregates the assurance procedures conducted and type of assurance expressed, on each type of financial information.

*Basic Elements of the Assurance Report* (Ref: Para. 134)

- A103. 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:
- (a) appropriately cross referenced and consistent with other information disclosed in the public document; and

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- (b) appropriately positioned in the public document in relation to the prospective financial information on which the assurance practitioner provides a conclusion.<sup>99</sup>

A104. Appendix 4 contains illustrative examples of assurance reports.

**Consent to the Inclusion of the Assurance Report in a Public Document**  
(Ref: Para. 137-138)

- A105. 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.<sup>100</sup> Such consent is ordinarily provided by way of spate 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 prospective financial information which remain uncorrected by the responsible party, or the assurance report does not consider the assurance report will be issued for the intended purposes, the assurance practitioner may not provide consent.

**Documentation** (Ref: Para. 139-140)

- A106. Sufficient appropriate documentation<sup>101</sup> 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.
- A107. 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

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<sup>99</sup> See ASIC's RG 170.

<sup>100</sup> See Section 716 of the *Corporations Act 2001*.

<sup>101</sup> The concepts and discussions on documentation relevant to an audit engagement are contained in Auditing ASA 230 *Audit Documentation*, and may be helpful in determining appropriate documentation to be obtained in an assurance engagement.

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decisions taken. It is, however, neither necessary nor practicable to document every matter the assurance practitioner considers during the assurance engagement.

**Subsection: Pro Forma Forecast**

**Assurance Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. 142-0)

- A108. The responsible party is ultimately responsible for the preparation and presentation of all information (including all best-estimate assumptions and pro forma adjustments) used in the preparation of the pro forma forecast in the document.

**Planning the Assurance Engagement**

*Planning Activities* (Ref: Para. 144)

- A109. In addition to the application and other explanatory material in paragraphs A68 to A73 inclusive, the following planning activities assist the assurance practitioner in the planning process:
- (a) understanding the nature of the pro forma adjustments, including:
    - (i) if the adjustments reflect actual event(s) or transaction(s) achieved in the actual time period in which they occurred, they are historical adjustments; or
    - (ii) if the adjustments reflect anticipated event(s) or transaction(s) that have not yet happened, or will not happen, or are the indirect results of events or transactions as if they had been achieved in a prior time period or earlier in the current period, rather than when they were actually achieved they are known as “as if” adjustments; and
  - (b) understanding the methodology used by the responsible party for the combination of the prospective financial information and the pro forma adjustments.

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- A110. Pro forma adjustments may be historical, or a mixture of historical and prospective, and should be in accordance with the stated basis of preparation. The assurance practitioner ordinarily has no responsibility to perform an assessment of the appropriateness, or otherwise, of the selected stated basis of preparation.

**Performing the Assurance Engagement**

*Assurance Procedures*

- A111. If the assurance practitioner cannot obtain sufficient appropriate evidence on the base financial information, the assurance practitioner considers the implications for the assurance engagement, including whether to withdraw from the engagement.  
(Ref: Para. X)
- A112. Ordinarily the most recent audited or reviewed financial statements will also be included in the document, together with the audit opinion or review conclusion

**Preparing the Assurance Report**

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

- A113. 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. The basis is ordinarily the recognition and measurement principles contained in the Australian Accounting Standards, and the accounting policies adopted by the responsible party, applied to the base unadjusted historical 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).

## **Appendix 1**

(Ref: Para. A11)

### **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 certain 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

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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

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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 applicable criteria. The applicable criteria are:

- 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:



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- 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 applicable criteria.

**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:

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- 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 predation, 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

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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. 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, on the basis of the applicable criteria. The applicable criteria are:

- 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.

The 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 give in an audit. Our review is not an audit and, accordingly, we will not express an audit opinion. We will not express any opinion or assurance, in relation to the [publicly] available forecast information of XYZ Target, or the directors' best-estimate assumptions underlying the aggregated forecast, or whether the financial information complies with the applicable criteria, and we will make this clear in our report.<sup>102</sup>

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<sup>102</sup> If sufficient access is granted to the XYZ Target's forecast and assumptions underlying the forecast, the wording can be amended.

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**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.

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**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.

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

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**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. A32)

### **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.

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**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



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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.

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- 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 years 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.

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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 prospectus 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 20 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

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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.

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Yours faithfully

ABC Company Limited

Name

Director

Draft

## **Appendix 3**

(Ref: Para. A41 and A104)

### **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

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**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]<sup>103</sup>

The Directors

ABC Company Limited

[Address]

Dear Directors<sup>104</sup>

**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.]

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<sup>103</sup> The date of both the hard copy and electronic version of the report should be the same. See ASIC’s RG 107 *Electronic Prospectuses*.

<sup>104</sup> Or other title as appropriate in the circumstances of the assurance engagement.

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**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*.

*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



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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 (review) on the financial information based on the work performed. 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];

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- 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.<sup>105</sup>

*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 consented<sup>106</sup> 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.]

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<sup>105</sup> Identify any departures from the recognition and measurement principles contained in the Australian Accounting Standards.

<sup>106</sup> Consent is ordinarily provided in a separate consent letter, which can be referenced here.

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**Independence or Disclosure of Interest**

[Firm Name] does not have any interest in the outcome of this [transaction]<sup>107</sup> other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Firm Name]

Date

Draft

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<sup>107</sup> Identify the nature of the event(s) or transaction(s), for example, the issue of shares or scheme of arrangement.

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***Prospective Financial Information (Re-issuance of AUS 804)***

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**Illustration 2: Engagement Circumstances include the following:**

**ABC Company proposes to issue a prospectus 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]<sup>108</sup>

The Directors

ABC Company Limited

Address]

Dear Directors<sup>109</sup>

**Independent Assurance Report on ABC Company forecast and pro forma forecast**

We have been engagement 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]<sup>110</sup> 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.]

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<sup>108</sup> The date of both the hard copy and electronic version of the report should be the same. See ASIC's RG 107 *Electronic Prospectuses*.

<sup>109</sup> Or other title as appropriate in the circumstances of the assurance engagement.

<sup>110</sup> Specify the type of the public document.

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**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 out 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].

**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.

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**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 consequently that
- the forecast itself is unreasonable.

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*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 director's 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 consequently that
- 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

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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 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].<sup>111</sup> 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.<sup>112</sup> 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.*]

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<sup>111</sup> 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].*"

<sup>112</sup> 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.*"



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**Independence or Disclosure of Interest**

[Firm Name] does not have any interest in the outcome of this [transaction]<sup>113</sup> other than in [state interest] for which normal professional fees will be received.

Yours faithfully

[Firm Name]

Date

Draft

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<sup>113</sup> Identify the nature of the event(s) or transaction(s), for example, the issue of shares or scheme of arrangement.

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**Illustration 3: Engagement Circumstances include the following:**

**ABC Company has prepared a non-public document for the bank supporting a loan application, which includes prospective financial information.**

**Limited assurance engagement on prospective financial information in the form of a forecast, with an unmodified limited assurance conclusion.**

[Date]<sup>114</sup>

The Directors

[Name of Entity]

[Address]

The Directors

**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 report 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

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<sup>114</sup> The date of both the hard copy and electronic version of the report should be the same. See ASIC’s RG 107 *Electronic Prospectuses*.

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contained in Australian Accounting Standards and the company's adopted accounting policies.

**Managements' 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.

**Conclusion**

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

- Managements' 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 managements' best-estimate assumptions as described in section [X] of the document; and

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- 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 consequently 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.

Managements' 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 managements' 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 managements' 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

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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.]*

**Independence 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