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Our ref

15 November 2011

Dear Ms Kelsall

**Exposure Draft 02/11 Proposed Standard on Assurance Engagements ASAE 3450  
Assurance Engagements involving Corporate Fundraisings and/or Prospective  
Financial Information (Re-issuance of AUS 804)**

We are pleased to have the opportunity to comment on ED 02/11.

We are supportive of the need to re-issue AUS 804 *The Audit of Prospective Financial Information*, however, we have a number of concerns with the ED 02/11 that we would like to bring to the Board's attention.

Detailed below are our key concerns as well as our response to the specific questions included in the exposure draft. We have also provided additional detailed comments on certain paragraphs in the exposure draft in Appendix Two of this letter.

**A. Key concerns**

The following are our key concerns which we believe require further thought prior to the proposed standard being issued.

**1. Consistency with international pronouncements and overlap with ASIC guidance**

It is important that Australian practitioners have a standard that works in the context of ASIC's guidance and that promotes international consistency. Given the increasing globalisation of capital markets, international consistency in assurance standards will assist in the efficiency of capital markets, particularly for those operating across multiple jurisdictions and will ensure that users of public documents prepared by Australian companies are underpinned by an assurance process equivalent to that of other jurisdictions.

### **ISAE 3420**

At the IAASB September 2011 meeting, the IAASB approved the new International Standard on Assurance Engagements (ISAE) 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* (ISAE 3420). The current drafting of ED 02/11 diverges from ISAE 3420 mainly due to the fact that ED 02/11 contemplates that an assurance practitioner can form a conclusion on pro forma financial information, whereas ISAE 3420 only covers compilation of pro forma financial information.

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

- the base financial information; and
- pro forma adjustments, as if the transactions and events to which those adjustments relate had occurred as at a specified date or during a specified period.

Whilst we appreciate that current practice in Australia does not conform with ISAE 3420, we do have some concerns with the AUASB issuing a standard which diverges from ISAE 3420, because it will leave Australian practitioners out of step with international practice. We also perceive potential public interest disadvantages in that users of assurance reports in jurisdictions other than Australia will be unfamiliar with ED 02/11 and the form of reporting it envisages, leading to potential confusion in cross-border transaction scenarios. In our view, the AUASB should carefully consider the appropriateness of issuing a standard which diverges from international practice.

In this regard we refer the AUASB to the comment letters received by the IAASB on its Exposure Draft on proposed ISAE 3420. The IAASB asked respondents to comment on whether they believe that it would be desirable for the IAASB to also develop a separate standard on reporting on the pro forma information itself. Notwithstanding that the IAASB ultimately decided that there was insufficient justification at this time for a project to develop a standard on reporting on pro forma information, the comment letters received by the IAASB contain commentary on conceptual issues associated with reporting on pro forma information. As noted in point 10 below, if the AUASB elects to proceed to issue a standard on reporting on pro forma information itself, we encourage it to publish its basis for conclusions on these conceptual issues to assist (i) practitioners in interpreting/applying the proposed standard and (ii) users in understanding the assurance reports prepared thereunder, particularly given the potential for confusion which may arise from the existence of two different assurance frameworks for reporting on pro forma information.

Please note that the remainder of this letter has been prepared on the basis that the AUASB does deem it appropriate to diverge from ISAE 3420, as per the current drafting of ED 02/11.

## **CP 150**

ASIC has released Consultation Paper 150 *Disclosing financial information other than in accordance with accounting standards* (CP 150) which is directly relevant to ED 02/11. CP 150 indicates that ASIC is proposing to set some guidelines as to what are, and are not, acceptable transactions and events for which pro forma adjustments may be made.

It is critical that ED 02/11 does not diverge from CP 150 in this regard. Any such divergence could cause confusion for assurance practitioners, or the capital markets more generally. In our view, the discussions of, and examples of, transactions or events which may be the subject of pro forma adjustments, and discussions of the required characteristics of a pro forma adjustment should be removed from ED 02/11. This matter is discussed further below in point 4 of the “Key concerns” section of this letter.

### **2. Document structure and length**

We have a general concern that ED 02/11 is overly complicated and too lengthy. This issue is exacerbated by the fact that individuals performing engagements under this proposed standard must also comply with ASAE 3000 and ASRE 2405 where relevant. We recommend the following initiatives be considered to address these issues:

- removal of the section on Historical Financial Information as, in our view, there is sufficient guidance available in existing AUASB standards to address reporting on historical financial information. If deemed necessary, the AUASB could consider issuing Guidance Statement to assist assurance practitioners to fulfil the objectives of an assurance engagement relating to historical financial information in connection with fund raisings;
- removal of the Prospective Financial Information section. In our view, prospective financial information can be more effectively dealt with in a separate standard which replaces AUS 804. The guidance on prospective financial information needs to cater for scenarios which are in connection with a fundraising and those which are not. In our view, there is a significant risk of this proposed standard being perceived as a standard applicable only to corporate transaction scenarios, and practitioners would benefit from having one easily identifiable source of guidance in relation to prospective financial information; and
- removal of the section on Pro Forma Forecast. A pro forma forecast is a forecast to which pro forma adjustments have been made. Practitioners engaged to review a pro forma forecast should be able to apply the sections of the standard which deal with pro forma financial information and the separate standard on prospective financial information respectively.

In summary these actions would result in:

- ED 02/11 dealing with the review of:
  - the compilation of pro forma financial information. We also recommend that this section on the compilation of pro forma financial information is aligned with ISAE 3420 to facilitate consistent approach and reporting by practitioners across jurisdictions; and
  - pro forma financial information;
- a separate standard dealing with the review of prospective financial information; and
- the existing body of AUASB standards being used by assurance practitioners in connection with assurance on historical financial information.

Also, the Application and Other Explanatory Material paragraphs should be critically reviewed to determine the extent to which they are required as there seems to be significant repetition.

### **3. Assurance conclusions**

There is lack of consistency as to the nature of the assurance conclusions the practitioner is expected to provide throughout ED 02/11 and its associated appendices. We also have concerns with the nature of the wording of the assurance conclusions in certain areas.

The approach we have taken in providing comment on this area is to provide our views on the most appropriate wording for the assurance conclusions in relation to each type of financial information, which are shown in Appendix One to this letter, and to also describe below the key matters we have considered in drafting those assurance conclusions.

Once the AUASB has finalised the wording of the assurance conclusions, an exercise should be performed to review the entire standard in detail to ensure all references to the assurance conclusions, the assurance practitioner's responsibilities, the scope of work and all the associated guidance on these areas is consistent, as this is not currently the case. As an example, one of the key inconsistencies in ED 02/11 is that the wording of the assurance conclusions are not always consistent in relation to the description of the responsibilities of the assurance practitioner. An example which highlights this inconsistency is shown below – this is in relation to the Illustrative Assurance Report shown in Illustration 2 of Appendix 4:

- Under the “Our Responsibility” section on page 185, for the “Financial Forecast” it states that “*We have conducted our engagement....in order to state whether, on the basis of the procedures described, anything has come to the our attention that causes us to believe that the financial forecast Statement of Financial Performance is not prepared, in all material respects, in accordance with the stated basis of preparation, as described in the scope section of this report.*” There is no specific reference as to the conclusions the assurance practitioner draws later in the assurance report regarding the fact that nothing has come to the attention of the assurance practitioner which causes them to believe that the best-estimate assumptions do not provide a reasonable basis for the forecast. Also, under the “Scope” section (on page 184), we do not believe the stated basis of preparation (as referred to under “Our Responsibility”) is clearly defined.

The key matters we have considered in drafting our recommended wording for the assurance conclusions, which are shown in Appendix One to this letter, are as follows:

**(i) “prepared” or “presented fairly”**

There is varying market practice as to whether the assurance practitioner should opine as to whether financial information has been “prepared in accordance with” a particular stated basis of preparation or framework, or “presented fairly in accordance with” a particular stated basis of preparation or framework.

We suggest that the AUASB provides guidance to practitioners in this area to achieve consistency with the concepts used in the Auditing Standards (ASAs) around “Fair Presentation” and “Compliance” frameworks.

The inability of an assurance practitioner to opine on presentation/disclosure was considered by the APES Board in the development of APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*. We would request the AUASB to consider the comments of the APES Board in the “Basis for Conclusions” document which was issued in December 2009 *“Basis for Conclusions: APES 350 Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document”*.

**(ii) “in all material respects”**

In the assurance conclusions provided in connection with prospective financial information and pro forma forecast financial information, the second limb is introduced by stating “*in all material respects...*”. This reference to “*in all material respects*” needs to apply to all three limbs of the assurance conclusion, which is in line with the wording in the “Our Responsibility” section of the relevant Illustrative Assurance Reports in Appendix 4.

**(iii) *The forecast itself is not unreasonable***

The statement that the forecast itself is not unreasonable has been included in ED 02/11 as the final limb of the assurance practitioner’s conclusion in relation to prospective financial information. As well as this statement being inconsistent with ISAE 3400 *The Examination of Prospective Financial Information* and extant AUS 804, we are concerned that its inclusion as a stand-alone statement in an assurance standard will be interpreted to imply that the assurance practitioner is providing some form of additional comfort over and above the preceding two limbs of the conclusion and, in turn, that the assurance practitioner has undertaken some specific additional procedures to enable them to provide the statement. Such a statement can only be made as a consequence of the preceding two limbs of the conclusion.

We appreciate this statement is included in AGS 1062 *Reporting in Connection with Proposed Fundraisings* and also in RG170 in the context of guidance for issuers as to the type of assurance opinion which may support an issuer to demonstrate it has reasonable grounds for the inclusion of prospective financial information in a disclosure document. However, this is guidance only and does not provide grounds for including it in this proposed standard. It should also be noted that paragraph 36 of RG170 acknowledges that this statement is not covered by professional standards.

In our view, this statement should be removed. It is inconsistent with ISAE 3400 and extant AUS 804, and it is superfluous as the assurance it conveys has already been conveyed by the preceding limbs of the assurance conclusion.

If the AUASB concludes that the statement should be retained, we recommend the words “and consequently that” be added to the end of the second limb of the assurance practitioner’s conclusion, to clarify that the final statements is made only as a consequence of the preceding two limbs and not as a result of any additional procedures performed by the assurance practitioner.

#### **4. Responsibility for providing guidance on appropriate pro forma adjustments**

In various places throughout ED 02/11 there are discussions of, or examples of, transactions or events which may be the subject of pro forma adjustments, or discussions of the required characteristics of a pro forma adjustment.

Preparation of pro forma financial information is the role of the preparer of that information (being the responsible party) and, in our view, it is the role of regulators to provide guidance on appropriate and inappropriate pro forma adjustments. ASIC has issued CP 150 *Disclosing financial information other than in accordance with accounting standards*, which we understand ASIC plans to finalise this month. CP 150 indicates that ASIC is proposing to set some guidelines as to what are, and are not, acceptable transactions and events for which pro forma adjustments may be made. Therefore it is critical there is nothing in this standard which is inconsistent with CP 150 so that it does not result in confusion for assurance practitioners, or the capital markets more generally.

In our view, the discussions of, and examples of, transactions or events which may be the subject of pro forma adjustments, and discussions of the characteristics a pro forma adjustment should be removed from ED 02/11 in their entirety. If ED 02/11 does ultimately include any guidance in this regard, in our view, it should be that adjustments for transactions or events need to be compiled on a basis consistent with the applicable reporting framework of the reporting entity and its accounting policies under that framework.

### **5. Further clarity in the use of “applicable criteria” and “basis of preparation”**

In our view, further guidance on the definition of “applicable criteria” is required and the term needs to be distinguished from the definition of “the basis of preparation”. We note that the definition of “applicable criteria” in ED 02/11 diverges from that in ISAE 3420 which may lead to confusion and potentially heighten the expectation gap in circumstances in which assurance is being provided in connection with transactions which are undertaken across multiple jurisdictions.

We also note that throughout ED 02/11, the terms “applicable criteria” and “assumptions” are used in relation to both pro forma financial information and prospective finance information, and there generally seems to be confusion in the use of the terms applicable criteria and assumptions throughout ED 02/11. Pro forma information is not based on assumptions, it is based on applicable criteria determined by the entity to illustrate a hypothetical situation. We suggest rewording is required in this area in order to clarify this matter.

In our view:

- “applicable criteria” is relevant to the preparation of pro forma financial information;
- “assumptions” are relevant to the preparation of prospective financial information; and
- “basis of preparation” (being the applicable financial reporting framework of the entity such as the recognition and measurement principles of Australian Accounting Standards) is relevant to both pro forma financial information and prospective financial information.

In the context that prevailing market practice in Australia for making pro forma adjustments is divergent, and often inconsistent with those allowable in other jurisdictions, the need for the assurance practitioner to make reference to these criteria in the assurance report, and the resultant need for the applicable criteria to be clearly disclosed in the public document, may contribute to both an improvement in the quality of disclosure by responsible parties and a reduction in the expectation gap (and resultant risk) when the assurance practitioner’s report is distributed in multiple jurisdictions as part of a cross-border transaction.

### **6. Requirement for a Subsequent Events paragraph in the Assurance Report**

In our view, there should not be a requirement for a subsequent events paragraph in the assurance report because the assurance practitioner has an obligation to consider such matters in forming their conclusion on the relevant financial information in the report. If the responsible party has not made appropriate adjustments for a material adjusting event after the reporting period, the assurance practitioner would need to qualify their assurance conclusion. Therefore, the subsequent events considerations are inherently incorporated into the assurance conclusion.

Also, the inclusion of a subsequent events paragraph is inconsistent with the approach taken for other types of assurance reports (e.g. reports under Clarity Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report* and Clarity Standard ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*). In addition the subsequent events paragraph could also lead to an expectation gap between the role of the responsible party and the role of the assurance practitioner as it appears to place an obligation on the assurance practitioner to assess the adequacy of disclosure in the public document generally, which is not the responsibility of the assurance practitioner (as described above in point 3(i)).

We strongly recommend that the subsequent events paragraph be removed from the Illustrative Assurance Reports in Appendix 4 of ED 02/11.

In the event that the AUASB does deem it appropriate to include a subsequent events paragraph in the assurance report, we have included below the matters we want to highlight in connection with the wording of the subsequent events paragraph and the procedures the assurance practitioner should perform in connection with subsequent events:

#### ***Reference to misleading or deceptive***

If the AUASB ultimately decides to retain a subsequent events paragraph in ED 02/11, we are strongly opposed to the inclusion of the final part of this paragraph which states “*...or that would cause such [financial information] to be misleading or deceptive*”. The assurance practitioner does not conclude in relation to such matters in their assurance report, and indeed cannot conclude on such matters because there is no framework for doing so (as described above in point 3(i) above). The assurance practitioner can only conclude on compliance with the recognition and measurement requirements of accounting standards or some other stated basis of preparation.

Having reference to the phrase “*...or that would cause such [financial information] to be misleading or deceptive*” may have the implication of extending the responsibilities and obligations of the assurance practitioner to ensuring the disclosure of the financial information satisfies the requirements of the Corporations Act 2001. That responsibility correctly rests with the responsible party (i.e. the issuer of the public document), not the assurance practitioner. To the extent that an assurance practitioner does address this issue, the guidance for doing so is provided in APES 350 and the reporting is by way of a due diligence sign-off, but only if the practitioner has been a member of the Due Diligence Committee associated with the transaction.

It is critical that the references to “misleading or deceptive” are removed from ED 02/11.

#### ***Procedures in connection with Subsequent Events***

ED 02/11 does not explain what procedures the assurance practitioner should perform with regard to Subsequent Events. If the paragraph on subsequent events is to be retained, there needs to be a clearer link between the requirements of the standard and the resultant reporting.

### ***Separately reporting on one element of the assurance practitioners work***

It appears to be inconsistent to draw out one specific area of the assurance practitioner's work that the assurance practitioner is required to carry out to arrive at its conclusion, and report on it separately in the form of a subsequent events paragraph.

### ***Issues with specific words used in the Subsequent Events paragraph***

The term "comment on" is not consistent with the terminology used in AASB 110 *Events after the Reporting Period*. We suggest the words "comment on, or" are removed from the subsequent events paragraph.

The term "outside the ordinary business" is not defined in ED 02/11, and it is unclear what the boundary of "inside" versus "outside" the ordinary business would mean to an intended user giving rise to the potential for an expectation gap. Additionally, it is not clear why only subsequent events "outside the ordinary business" are relevant given that presumably subsequent events both inside and outside the ordinary business could be misleading if not adequately disclosed. Therefore we recommend that reference to "outside the ordinary business" are removed from the subsequent events paragraph.

### **7. Extension of the practitioner's responsibilities to matters of disclosure**

There are instances in ED 02/11 of the assurance practitioner being stated to be responsible for ensuring certain matters are appropriately disclosed. As described above, there is no framework against which an assurance practitioner can assess disclosure in a public document context. It is very much a subjective test at law based on the expectations of a reasonable investor.

Responsibilities for ensuring such disclosure requirements should remain entirely with the responsible party (i.e. the issuer of the public document).

References which imply the assurance practitioner has a responsibility to consider, gather evidence in relation to, or conclude on, the disclosure of the financial information in the public document must be removed from ED 02/11. Examples of such references which need to be deleted are as follows: paragraph 144(e), the final three lines of paragraph 156, paragraph 159(g)(iii) and Appendix 4 (1<sup>st</sup> paragraph of page 204 and 1<sup>st</sup> paragraph page 208).

### **8. Independence**

We are of the view that ED 02/11 should make reference to APES 110 *Code of Ethics for Professional Accountants*. This would include referring to the fact that APES 110 provides a framework of principles that assurance practitioners must use to identify threats to independence, evaluate the significance of the threats and identify and apply safeguards to eliminate the threats or reduce them to an acceptable level.

### **9. Reporting to those charged with governance**

We suggest that it would be helpful for ED 02/11 to clarify the responsibilities of assurance practitioners in connection with reporting to those charged with governance. This matter is not currently covered by ED 02/11, but it is covered by ASRE 2405 and ASAE 3000, both of which may be applicable to engagements which will be the subject of ED 02/11. We recommend that appropriate content is taken from ASA 260 *Communication of Audit Matters with Those Charged With Governance* and included in ED 02/11 – this could be as part of the standard itself or as part of the Application and Other Explanatory Materials.

### **10. Basis for conclusions**

We encourage the AUASB to share the views it formed and conclusions it made in preparing ED 02/11 (for example in connection with differences with international pronouncements) by publishing a “Basis for Conclusions” document. We are of the view that such a document will be very helpful to assurance practitioners and the wider market.

## **B. Requested comments**

### **1. Have applicable laws and regulations been appropriately addressed in the proposed standard?**

There are no applicable laws and regulations applicable to the expression of assurance on financial information in this context. The only authoritative literature that exists is regulatory guides issued by ASIC which provide guidance for the responsible party not the assurance practitioner.

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

See above.

### **3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed Standard, or may conflict with the proposed Standard?**

Not to our knowledge.

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

Ongoing divergence from international pronouncements increases the cost for responsible parties given assurance engagements covered by ED 02/11 are increasingly in connection with cross-border transactions. Additionally, divergence from international pronouncements has the potential to increase the expectation gap and engagement risk profile for assurance practitioners working on cross-border transactions.

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

In our view, a number of key concerns discussed earlier in this letter have public interest implications. Our concerns in relation to consistency with international pronouncements, overlap with ASIC guidance and clarity of assurance conclusions collectively relate to the clarity of the role and reporting of assurance practitioners which has a significant public interest implication.

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

As discussed in point 2 of the “Key concerns” section of this letter, we are of the opinion that the proposed Standard should be split according to the following types of financial information:

- the compilation of pro forma financial information; and
- pro forma financial information.

As described in further detail in questions 8 and 9 below, we are of the view that this proposed Standard should not cover:

- historical financial information; or
- prospective financial information.

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

In our view, ED 02/11 should cover assurance on the compilation of pro forma financial information, and this section should be strictly aligned with ISAE 3420.

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

In our view, the proposed Standard should not cover assurance on historical financial information. As discussed in point 2 of the “Key concerns” section of this letter, we are of the opinion that there is sufficient guidance available in existing AUASB standards which address the role of the assurance practitioner in relation to conducting both limited and reasonable assurance engagements in relation to historical financial information.

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

In our view, the proposed Standard should not cover assurance on prospective financial information. As discussed in point 2 of the “Key concerns” section of this letter, we are of the opinion that prospective financial information should be dealt with in a separate standard which replaces AUS 804. The guidance on prospective financial information needs to cater for scenarios which are in connection with a fundraising and those which are not. In our view, there is a significant risk of this proposed standard being perceived as a standard applicable only to corporate transaction scenarios, and practitioners would benefit from having one easily identifiable source of guidance in relation to prospective financial information.

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

Not to our knowledge.

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

Not to our knowledge – we expect that the application of ED 02/11 to an SME would be rare and in any case the proposed Standard would need to be applied identically irrespective of the size of the entity.

We would be pleased to discuss our submission with members of the AUASB or its staff. If you wish to do so, please contact me on (02) 9335 8749.

Yours sincerely



Julian Bishop  
Partner

## **Appendix One**

### **Proposed wording for Limited Assurance Conclusions used in ED 02/11**

#### **Historical financial information**

Based on our review, which is not an audit, nothing has come to our attention, which causes us to believe that the Historical Financial Information, set out in Section [X] of the document, has not been prepared, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and accounting policies adopted by ABC Company as disclosed in Section [X] of the document.

#### **Pro forma historical financial information**

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the Pro Forma Historical Financial Information, set out in Section [X] of the document, has not been prepared, in all material respects:

- on a basis consistent with the [applicable criteria]/[stated basis of preparation]<sup>1</sup> set out in Section [X] of the document; and
- given the [applicable criteria]/[stated basis of preparation]<sup>1</sup> set out in Section [X] of the document, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and accounting policies adopted by ABC Company as disclosed in Section [X] of the document.

#### **Prospective financial information**

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

- the Directors' best-estimate assumptions as set out in Section [X] of the document do not provide a reasonable basis for the preparation of the forecast; and
- the Financial Forecast is not prepared:
  - (a) on the basis of the best-estimate assumptions as set out in Section [X] of the document; and

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<sup>1</sup> Please refer to point 5 of the "Key concerns" section of this letter for further discussion on the use of the terms "applicable criteria" and "basis of preparation".

- (b) in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and accounting policies adopted by ABC Company as disclosed in Section [X] of the document.

### **Pro forma forecast financial information**

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

- the Directors' best-estimate assumptions as set out in Section [X] of the document do not provide a reasonable basis for the preparation of the pro forma forecast in the context of the [applicable criteria]/[stated basis of preparation]<sup>2</sup>; and
- the pro forma forecast is not prepared:
  - a) on the basis of the best-estimate assumptions as set out in Section [X] of the document; and
  - b) given the [applicable criteria]/[stated basis of preparation]<sup>2</sup> set out in Section [X] of the document, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and accounting policies adopted by ABC Company as disclosed in Section [X] of the document.

### **Proper compilation of pro forma financial information**

#### **Limited assurance**

Based on our review, which is not an audit, nothing has come to our attention, which causes us to believe that the pro forma historical/forecast financial information has not, in all material respects, been properly compiled on the basis stated in Section [X] of the document.

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<sup>2</sup> Please refer to point 5 of the "Key concerns" section of this letter for further discussion on the use of the terms "applicable criteria" and "basis of preparation".

## Appendix Two

**Proposed Standard: ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information (Re-issuance of AUS 804)**

	<i>Paragraph(s)</i>	<i>Issue noted</i>	<i>Recommendation</i>
<b>1</b>	<b>Paragraph on Main changes from existing AUS 804 (page 11)</b>	This paragraph refers to the Table of Differences at the back of ED 02/11, but the Table of Difference essentially says that the proposed standard cannot be practically mapped to the paragraphs in the extant AUS 804. There are changes that have been made between AUS 804 and ED 02/11 for which the conceptual basis has not been explained (e.g. the third leg of the assurance conclusion for prospective financial information) so we are of the view that the Table of Differences is inadequate.	We recommend that the Table of Differences is revisited to re-consider the adequacy of the description of the differences.
<b>2</b>	<b>Title 3 4 13(g)</b>	The use of words “Corporate Fundraisings” could be confusing because the definition of “Corporate Fundraisings” captures takeovers, schemes of arrangement or other corporate restructures, however these terms not consistent with the literal meaning or the definition per the Corporations Act 2001.	We recommend the wording of the title is revisited to ensure it is not misleading once the content of the ED 02/11 has been finalised. We also suggest reference to “Corporate” is removed from the term “Corporate Fundraisings”, and that this term does not need to be defined in paragraph 3, instead it should only be defined in paragraph 13(g).
<b>3</b>	<b>1(a) and (b)</b>	We do not understand why pro forma information is not referred to in 1(a) and 1(b)	We recommend that reference to pro forma information is included in 1(a) and 1(b).
<b>4</b>	<b>1(b)</b>	There is lack of clarity in connection with this paragraph in two respects: <ul style="list-style-type: none"><li>• is the second part of the sentence referring to the “historical and/or prospective financial information” or the</li></ul>	We recommend this wording is revised and clarified.

		reporting thereon?	<ul style="list-style-type: none"> <li>If it is “not included in or to be included in a public document”, we are not clear how is it intended to be distributed to users external to the entity?</li> </ul>
5	1(d)	We do not understand why 1(a) and 1(b) refer to a public document but 1(d) does not?	We recommend this wording is revised for consistency.
6	4 13(g)	“Document” is not separately defined in paragraph 13. Instead it is defined in paragraph 4 and also within the definition of “Corporate Fundraising” in 13(g).	For completeness we recommend defining “Document” in paragraph 13 and then removing the definition in paragraph 4 and 13(g).
7	5	In our view, the reference to “the compilation process covering the financial information” is unclear with regard to what is “the” financial information.	In our view, this should either be replaced with “a particular type of” or preferably refer to pro forma financial information as paragraph 1(d) only contemplates reporting on compilation in relation to pro forma financial information.
8	7	It is not very clear what the reference to “in the section” in line 12 means.	We recommend this wording is clarified.
9	8	In our view, the wording of the first sentence of paragraph 8 is confusing.	We recommend the first sentence of paragraph 8 is deleted or redrafted.
10	8	In paragraph 8, and in various other areas of ED 02/11, there are references to what type of assurance is “ordinarily” provided in connection with various types of financial information. Market practice evolves over time and in our view there is not any need to state what “ordinarily” happens. The use of the word “ordinarily” also potentially places a burden on the assurance practitioner to justify positions taken that are not strictly in accordance with what ordinarily happens where the circumstances warrant this. The	We suggest that references throughout ED 02/11 to what type of assurance is “ordinarily” provided in connection with various types of financial information are removed.

		level of assurance to be provided is a matter for the assurance practitioner to consider as part of the engagement acceptance process.	
<i>11</i>	<b>9</b>	The title of ED 02/11 includes the words “Assurance Engagements” so it does not seem necessary to state that the standard does not apply to non-assurance engagements.	We recommend paragraph 9 is deleted.
<i>12</i>	<b>12(a)</b>	In our view, this paragraph is inconsistent with the definition of Financial Information as it tries to distinguish between “Financial information” and “pro forma financial information” but definition of Financial Information includes pro forma financial information.	We recommend this wording is revisited and clarified.
<i>13</i>	<b>13(b)</b>	Private Report: We are of the view that it is confusing to introduce the term “Private Report” in the context of an assurance engagement as “Private Report” has connotations of a two-party relationship. We also note that this term only appears to be used five times – once in the definitions in 13(b) and four times in the illustrative examples (three of which are headings).	We recommend the term “Private Report” is either not used in ED 02/11 or is defined.
		We also note that in paragraph 4 the term “non-public document” is used instead of Private Report.	
<i>14</i>	<b>13(e) 87(b)(i) 88(ii)</b>	Inadequately explained cross reference to RG 170: In relation to “reasonable basis”, the footnote cross refers to RG 170 which itself only contains two references to “reasonable basis” – one is a cross reference to GIO	We recommend that the cross references to RG 170 in connection with “reasonable basis” are explained in ED 02/11. ED 02/11 should also include an explanation as to whether the AUASB considers the terms “reasonable

	<p>Australia Holdings Ltd v. AMP Insurance Investment Holdings Pty Ltd (1998) 29 ACSR 584 and the other is part of a non-exhaustive list of factors that do not, by themselves, establish reasonable grounds for prospective financial information in a disclosure document or Product Disclosure Statement. RG170 focuses more on “reasonable grounds” than “reasonable basis”.</p> <p>The reference to “reasonable basis” is part of the definition of “best estimate assumptions” which is not a term used in RG170.</p> <p>Similarly paragraph 87(b)(i), in referring to assumptions having a reasonable basis, cross refers to RG 170 and also the second reference to “reasonable basis” in this paragraph includes footnote 23 which cross references to the term “reasonable grounds” in RG 170 without explaining the link between “reasonable grounds” and “reasonable basis”. There is the same issue with paragraph 88(ii) – footnote 26.</p> <p>Clarity on this point is important as paragraph 103(d) requires the assurance practitioner to design and perform procedures to determine whether the assumptions used in the preparation are based on grounds that have a reasonable basis. There are two matters which need clarification here: (i)</p>
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		does the AUASB consider that reasonable grounds has the same meaning as reasonable basis; and (ii) does 103(d) means that the assurance practitioner has an obligation to form a conclusion on a matter that was interpreted by the courts in GIO Australia Holdings Ltd v. AMP Insurance Investment Holdings Pty Ltd?	
15	13(j)	Clarification of definition of “Events or transactions”.	We recommend the word “impact” in 13(j)(ii) is replaced with the words “have been reflected in”.
16	13(m)	Definition of “Hypothetical assumptions” is not very clear in that it refers to the fact that hypothetical assumptions are not necessarily expected to take place. It is possible for assumptions to be such that they are expected to take place, but are not based on reasonable grounds in accordance with RG170, in which case they would be considered hypothetical.	We recommend the definition of “Hypothetical assumptions” is revisited and clarified.
17	13(n)	Missing comma and word in the definition of “Limited assurance”	In the 8 <sup>th</sup> line we recommend including the word “, that” after the word “performed”.
18	13(s)	Definition of “Non-public document” does not include reference to examination of prospective financial information.	In the 2 <sup>nd</sup> line we recommend including the words “and/or examination of prospective financial information” after the word “fundraising”. Also the word “included” should be deleted from the 3 <sup>rd</sup> line.
19	13(u) and 84(iii), 144(b)(ii), 147(a)(ii)	The use of the term “at an earlier date” in the 5 <sup>th</sup> line of paragraph 13(u) may not always be accurate. The pro forma adjustments illustrating the impact of an event or transaction on the financial information may not always be illustrating the impact as if the	Revisit the drafting to address this point. For example, change the words “at an earlier date” to “a date”, and after the word “illustration” in the 6 <sup>th</sup> line add the words “, or not occurred at all. Also, in the 2 <sup>nd</sup> sub-bullet point of paragraph 84(iii), in 144(b)(iii) and in the second sub-bullet of 147(a)(ii), the

		event had occurred, or the transaction had been undertaken, at an earlier date selected for the purposes of the illustration e.g. the pro forma adjustment may be made to assume the event or transaction never occurred.	words “or not occurred at all” should be added after the word “information”.
20	13(v)	The words “that may occur in the future, and/or on expected actions by the entity” appear to be superfluous to the meaning of the sentence.	We recommend the words “that may occur in the future, and/or on expected actions by the entity” are deleted from the 1 <sup>st</sup> sentence.
21	13(v)(i)	Typographical error	Delete the word “of” from the first line
22	13(w)(ii)	Definition of “Public document” includes a document released to ASIC in connection with a low document offering. “Low document offering” is a colloquialism and in our view it should not be used in ED 02/11. Also, the definition of “Public Document” in ED 02/11 is inconsistent with the definition of the same term in APES 350. Different definitions of the same term are likely to create confusion and uncertainty for practitioners.	We recommend the term “Low documentation offering” is not used in the document. However, if the AUASB decides to use the term it should be defined within ED 02/11.  We recommend the definition of Public Document is aligned with APES 350 or a different term is used.
23	13(x)	Definition of “Reasonable assurance engagement” does not appear to be the same as the definition of this term in ASAE 3000.	We recommend that definitions are aligned where relevant with existing AUASB standards.
24	13(z)	In our view, the sentence “The responsible party may also be referred to as the engaging party, as defined in paragraph (h) of this ASAE” needs to be better explained. For example, you could have a situation where the engaging party is different to the responsible party (i.e. those charged with governance).	We recommend that this issue should be expanded upon to make this point clear.

25	<b>13(cc)</b>	13(cc) defines “Third party”, however, this term does not appear to be used within ED 02/11. Instead ED 02/11 seems to make reference to users external to the entity as in paragraph 1(b) and (d).	We recommend either removing the definition of “Third Party” or using this term within ED 02/11. We also note that the word “the” needs to be deleted from the end of the 2 <sup>nd</sup> line.
26	<b>17</b>	This paragraph on exercising professional judgement does not include reference to examination of prospective financial information.	In the 4 <sup>th</sup> line we recommend including the wording “...and/or examination of prospective financial information...” after the word “fundraising”
27	<b>26</b>	Typographical error	The word “paragraph” needs to be deleted from the start of the 3 <sup>rd</sup> line.
28	<b>31</b>	Missing comma	A comma needs to be inserted after the word “record” in the 3 <sup>rd</sup> line.
29	<b>32(b)</b>	We do not understand the reference to regulators in this paragraph. There is no regulation/legislation that requires the preparation of assurance reports which are prepared under this standard. Therefore, if the assurance practitioner could not agree a change in terms with the client, we do not understand why the assurance practitioner would need to inform the regulator.	We recommend that the reference to regulators is removed from this paragraph.
30	<b>36(h) and 99(h)</b>	The requirement, as a planning consideration, to get an understanding of the other information included in the document to assess whether it is consistent with the financial information is unlikely to be possible in most instances because the document is unlikely to have been drafted at that stage.	We recommend adding some clarification wording in connection with this point.
31	<b>36(j)</b>	Typographical error	Add the word “of” after the word “understanding”.
32	<b>49(a)</b>	Typographical error	The word “the” needs to be removed from before the

33	<b>59</b>	Paragraph 59 states that “The assurance practitioner shall evaluate the representations received from the responsible party for their reasonableness and consistency with other information and evidence obtained.” This is expressed inconsistently with other AUASB standards including ASA 580, ASRE 2405 and ASAE 3000.	word “action” in the 1 <sup>st</sup> line We recommend the requirements in relation to the assurance practitioner’s responsibility with respect to representations be conformed with other AUASB standards.
34	<b>69(c)</b>	Typographical error	The word “and” needs to be removed after the word “applicable” in the 2 <sup>nd</sup> line.
35	<b>69(e)(i)</b>	Typographical error	The word “previously” needs to be changed to “previous” in the 1 <sup>st</sup> line.
36	<b>69(f)</b>	Typographical error	Add the word “the” after the word “with” in the 4 <sup>th</sup> line.
37	<b>69(g)(ii)</b>	Typographical error	The word “described” needs to be added after the word “as” in the 5 <sup>th</sup> line.
38	<b>75</b>	Typographical error	The word “practitioner” needs to be added after the word “assurance” in the 2 <sup>nd</sup> line.
39	<b>78</b>	This paragraph suggests only limited assurance can be provided in connection with pro forma historical financial information which is not consistent with the wording in the rest of the standard.	We recommend that this inconsistency is addressed.
40	<b>79(a)</b>	Typographical error	The word “which” needs to be added after the word “conclusion” in the 3 <sup>rd</sup> line
41	<b>80(b)</b>	Typographical error	The words “information and” need to replace the words “information’s with” in the 3 <sup>rd</sup> line.
42	<b>80(c)</b>	Paragraph 80(c) requires the assurance practitioner to design and perform procedures on the pro forma historical financial information in order to “determine whether the pro forma adjustments are based on	We recommend that if the phrase “reasonable basis” is retained in ED 02/11, similar wording to ISAE 3420 should be used i.e. “...the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for

	<p>grounds that have a reasonable basis". This gives rise to the following issues:</p> <ul style="list-style-type: none"> <li>the relevant Corporations Act requirements in relation to reasonable grounds apply to prospective financial information not pro forma financial information which is by definition designed by the responsible party to illustrate a hypothetical situation. Accordingly, we are not clear how the assurance practitioner determines if that hypothetical scenario has reasonable grounds; and</li> <li>a matter cannot be reasonable in and of itself. It is reasonable in the context of a particular set of facts and circumstances so the current wording will likely exacerbate any expectation gap about the assurance practitioner's role.</li> </ul> <p>Therefore paragraph 80(c) currently creates a requirement which the assurance practitioner is not capable of satisfying.</p>	<p><i>presenting the significant effects directly attributable to the event or transaction...”</i></p> <p>We also recommend that ASA 540 <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i> is referred to regarding its use of the term “reasonable basis”.</p>
43	<p><b>80(c)(v)</b> <b>103(d)(vi)</b></p>	<p>80(c)(v) refers to the assurance practitioner determining whether the pro forma adjustments are mathematically correct. The use of the term “mathematically correct” appears ambiguous as the adjustment is just a number so it is not clear exactly what it is that the assurance practitioner is determining is mathematically correct. The term</p>
		<p>We recommend the drafting of these points is revisited so that it is more clear as to exactly what it is that the assurance practitioner is determining is mathematically correct.</p>

		“mathematically correct” is also used in 103(d)(vi) in connection with the assumptions used in the preparation of prospective financial information.	
<b>44</b>	<b>84(a)(iii)</b>	Typographical errors	Insert the word “of” after the word “basis” in the 1 <sup>st</sup> line, and change the word “a” to “at” in the 4 <sup>th</sup> line of the 2 <sup>nd</sup> sub-bullet point.
<b>45</b>	<b>92(a)(vi)</b>	For a public report scenario, it would not be appropriate to make a statement that the assurance practitioner will disclaim responsibility for any reliance on the assurance report by any party other than the responsible party. It is also noted that this point is not made in the associated paragraph in the historical financial information section (i.e. paragraph 29).	Context this point by stating “In connection with a non-public document...”. Also, the respective paragraphs on what the agreed terms of the assurance engagement shall include for prospective financial information (i.e. paragraph 92) and historical financial information (i.e. paragraph 29) should be further aligned.
<b>46</b>	<b>102(d)</b>	4th line refers to “historical financial information” – should this refer to “prospective financial information”?	We recommend assessing whether the word “historical” needs to be changed to “prospective” in the 4th line, or whether the word “historical” could be deleted.
<b>47</b>	<b>103(b) 144(a)</b>	These paragraphs make reference to considering the reasonableness and appropriateness of the time period covered by the prospective financial information and the pro forma forecast respectively. This is the responsibility of the responsible party not the assurance practitioner.	We recommend that paragraph 103(b) is removed, and that the reference to considering the reasonableness and appropriateness of the time period covered by the pro forma forecast is removed from paragraph 144(a).
<b>48</b>	<b>103(d)(v)</b>	This paragraph refers to the assurance practitioner determining whether the assumptions used in the preparation of the prospective financial information are attributable to the underlying event(s) or transaction(s). This point seems superfluous	We recommend that 103(d)(v) is removed.

		when considering what procedures to perform in connection with the assumptions.	
<b>49</b>	<b>103 (e)</b>	Paragraph 103(e) currently only refers to whether adjustments are necessary for the effects of the fundraising transaction or events, however, this could also be the case for other transactions or events not related to the fundraising.	After the word “fundraising” in the 2 <sup>nd</sup> line add the words “or other”.
<b>50</b>	<b>113</b>	Typographical errors	Add the word “shall” after the word “practitioner” in the 2 <sup>nd</sup> line. Delete the word “the” before the word “action” in the 1 <sup>st</sup> line of 113(a).
<b>51</b>	<b>127(a) versus 134(e)(i)</b>	The description of the assurance conclusion in connection with prospective financial information only refers to it being presented fairly in accordance with the applicable financial reporting framework. It does not include reference to the conclusions drawn regarding the best estimate assumptions and the prospective financial information itself as shown in 134(e)(i).	Align 127(a) with the assurance conclusion which is presented in the assurance report.
<b>52</b>	<b>129(b)</b>	The definition of “best estimate assumptions” says such assumptions must have a “reasonable basis”. Therefore we are not clear how you could conclude that “one or more material assumptions do not provide a reasonable basis for prospective financial information prepared on the basis of best-estimate assumptions”?	We recommend that this point is re-worded to provide further clarity.
<b>53</b>	<b>131</b>	Consistency in ordering of points.	We recommend re-ordering points (a) and (b) for consistency with guidance in paragraph 66.

<b>54</b>	<b>131(a)</b>	Typographical error	Insert the word “the” before the word “document” in the 3 <sup>rd</sup> line.
<b>55</b>	<b>134(c)(v)</b>	It is not appropriate for an assurance practitioner to be commenting on whether or not the financial information is suitable for any other purpose.	We recommend removing 134(c)(v).
<b>56</b>	<b>134(d)(i)</b>	Why does it state that the assurance report needs to include a statement by the assurance practitioner that the engagement did not include “an audit <u>or review</u> of the prospective financial information.” This does not make sense given the assurance practitioner is reviewing the prospective financial information.	Remove the words “or review” from the 1 <sup>st</sup> sub-bullet of 134(d)(i).
<b>57</b>	<b>134(e)(iii) and 147(f)(iii)</b>	We cannot envisage a scenario under which it would be appropriate to express reasonable assurance that the assurance practitioner believes, in all material respects, that the best-estimate assumptions provide a reasonable basis for the prospective financial information given that prospective financial information, by its very nature, cannot be determined with certainty.	We recommend removing the first sub-bullet of 134(e)(iii) and of 147(f)(iii).
<b>58</b>	<b>134(g)(ii)</b>	This paragraph requires the assurance practitioner to include a statement, if applicable, in connection with hypothetical assumptions even if the hypothetical assumptions have no significant impact on the prospective financial information. However, there is no guidance in ED 02/11 on what the measure of “significant impact” is or how this relates to the concept of	We recommend that 134(g)(ii) is removed.

		materiality. Also, it does not seem necessary to include a statement in the assurance report on hypothetical assumptions if they are not material.	
59	144(b)	Paragraph 144 refers to the assurance practitioner designing and performing certain procedures, however, 144(b) is not worded as a procedure.	We recommend that 144(b) is re-worded so that is a procedure.
60	144(d)	We are not clear on the meaning of the following words “..and is therefore in the context of the responsible party’s stated basis of preparation”.	We recommend the drafting of this point is revisited and clarified.
61	144(e) 156 159(g)(iii) Appendix 4- Illustrations 5 and 6	There are references in these paragraphs, and in Appendix 4, to the assurance practitioner evaluating the disclosure or presentation of the financial information. As described in point 7 of the “Key Concerns” section of this letter, this is not the responsibility of the assurance practitioner.	The following paragraphs/wording must be deleted: <ul style="list-style-type: none"><li>• 144(e) and 159(g)(iii);</li><li>• The final three lines of paragraph 156</li><li>• References in the 1<sup>st</sup> paragraphs of pages 204 and 208 (of Illustrations 5 and 6 of Appendix 4) to “The assurance engagement also involves evaluating the overall presentation of the pro forma historical financial information/pro forma forecast”.</li></ul>
62	147(e)(i)	Improving the clarity of the drafting.	The words “previously reviewed” in the 1 <sup>st</sup> sub-bullet of this point should be replaced with the following words “..previously performed audit or review of any..”
63	147(f)(ii)	Typographical error	The word “provide” in the 2 <sup>nd</sup> line should read “provides”.
64	149(a)	What basis does the assurance practitioner have for determining that the applicable criteria are suitable. That is, practically how would the assurance practitioner apply this criteria to determine whether or not to accept an engagement?	We recommend that there is a need for additional Application or Other Explanatory Material containing guidance on this point.
65	150(a)	Typographical error	Add the word “the” after the word “on” in the 3 <sup>rd</sup> line.

<b>66</b>	<b>153(e)</b>	This sentence does not read well, especially in the 2 <sup>nd</sup> and 3 <sup>rd</sup> lines where it states “...aware of any significant events subsequent to the date of from which the source of the base financial information...”.	We recommend the drafting of this point is revisited and clarified.
<b>67</b>	<b>157(b)</b>	We do not understand 157(b) and it seems contrary to 157(c).	We recommend 157(b) is removed.
<b>68</b>	<b>159(i)</b>	This paragraph states that, in connection with the compilation of pro forma financial information, the assurance report should include “statements covering events up to and including the date of the assurance report confirming whether any material transactions or events outside the entity’s ordinary business have come to the assurance practitioner’s attention that would require comment, or adjustment to, the pro forma financial information, and if so, their potential impact on the pro forma financial information.” This is not appropriate because it implies a form of completeness test which cannot apply to pro forma financial information since the responsible party can choose what to adjust for and what not to adjust.	We recommend that 159(i) is removed.
<b>69</b>	<b>A1</b>	The 1 <sup>st</sup> sentence of this paragraph does not make sense – it states that an assurance practitioner “undertakes financial information.”	We recommend the drafting of the 1 <sup>st</sup> sentence of this paragraph is revisited and clarified.
<b>70</b>	<b>A9 A68</b>	In the 3 <sup>rd</sup> sentence of these paragraphs the engaging party seems to be confused with the entity being reported upon.	We recommend the drafting of this point is revisited and clarified.

		The issue here is that, for example, the selling shareholder may engage the assurance practitioner initially and then it may subsequently establish the entity to be sold and appoint directors. The question is then which directors are taking responsibility for the disclosure document.	
71	<b>A10</b>	The 2 <sup>nd</sup> sentence of this paragraph is difficult to understand.	We recommend the drafting of the 2 <sup>nd</sup> sentence of this paragraph is revisited and clarified.
72	<b>A12(e)(v)</b>	The example provided is specific to a scenario involving a prospectus, so the reference to “document” should be changed to “prospectus” .	Change the reference to “the document” in the 6 <sup>th</sup> and 7 <sup>th</sup> line to “a prospectus” .
73	<b>A38</b>	Second line refers to “prospective financial information” when we believe it should refer to “historical financial information”	We recommend changing the word “prospective” to “historical” in the 2 <sup>nd</sup> line.
74	<b>A57 and A121</b>	Paragraphs A57 and A121 refer to pro forma adjustments which may be made. As discussed in point 4 of the “Key concerns” section of this letter, we are of the view that such guidance should not be included in ED 02/11 and that it is the responsibility of regulators to provide such guidance. Of particular concern are parts (c) and (d) of these paragraphs which suggest pro forma adjustments may be made to “eliminate the effects of unusual or non-recurring transactions that are not part of the normal operations of the entity”, or to “correct.... uncertainties”.	We recommend that the discussions of, and examples of, transactions or events which may be the subject of pro forma adjustments, and discussions of the characteristics a pro forma adjustment should be removed from ED 02/11 in their entirety.
75	<b>A58(d)(v)</b>	Missing bracket	Insert the end of the bracket in the 5 <sup>th</sup> line after the word “entity” .

76	<b>A109(a)</b>	Wording not consistent with similar paragraph regarding historical financial information i.e. A46(a)	We recommend adding the words "..., and separately referred to in the assurance report" after the word "document" in the 2 <sup>nd</sup> line.
77	<b>Conformity with International Standards on Assurance Engagements (P. 160)</b>	The 1 <sup>st</sup> paragraph of page 160 states that "This Standard on Assurance Engagements has been made for Australian legislative purposes". We are of the view that further clarity as to the meaning of this statement is required because, as far as we are aware, there is no legislative requirement for the AUASB to issue this standard nor is there any legislative or regulatory requirement for an assurance practitioner to report on the type of financial information to which this standard applies.	We recommend that the drafting of 1 <sup>st</sup> paragraph of page 160 is revisited, and the wording around this standard being "... made for Australian legislative purposes..." is clarified.
78	<b>Appendix 1</b>	Table on page 161 implies reasonable assurance cannot be provided in connection with some of the stated types of financial information which is inconsistent with paragraph 8.	We recommend this table is deleted.
79	<b>Appendix 2</b>	Guidance for use of the letter.	Illustrative engagement letter should have a similar preamble to the example in ASA 210 – that is: "This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Auditing Standard. It will need to be varied according to individual requirements and circumstances."
80	<b>Appendix 2 – P.162</b>	Typographical error	In the guidance at the top of the page add the words "engagement letter" after the word "illustrative".
81	<b>Appendix 3</b>	Structure of representation letter and guidance regarding the responsible party.	We recommend the illustrative representation letter is compared to the illustrative representation letter in ASA 580 and recommend it should follow the

		approach/structure in that standard .
82	<b>Appendix 3</b>	<p>Also, we recommend ED 02/11 should be more explicit in the Application and Other Explanatory Material that, where the responsible party is “those charged with governance”, the representation letter should be provided by that party (consistent with the illustrative example) and not management.</p>
83	<b>Appendix 3 – P.172</b>	<p>We are not clear as to why the first sentence of Illustrative Representation Letter refers to:</p> <ul style="list-style-type: none"> <li>• “an examination”; and</li> <li>• “investigating accountant”</li> </ul> <p>These are undefined terms which create an expectation gap.</p>
84	<b>Appendix 4, Illustration 1 (p.179)</b>	<p>Typographical error. On page 179 the 2<sup>nd</sup> bullet point refers to “The stated basis of preparation of the pro forma historical financial information is... applied to the historical financial information and pro forma adjustments....as if those <b>adjustments</b> had occurred as at the date of the historical financial information”. The reference to “adjustments” shown in bold should be a reference to transactions or events to which those adjustments relate.</p>
85	<b>Appendix 4 –</b>	In the 4 <sup>th</sup> line of the 2 <sup>nd</sup> paragraph change the word

	<b>Illustration 1 – P.180</b>	“accordingly” to “accordance”.
<b>86</b>	<b>Appendix 4 – Illustration 2 and 3 – P.180</b>	Incorrect references – the titles of Illustrations 2 and 3 on page 177 do not seem to correspond to the actual illustrations shown on pages 183 and 191.
<b>87</b>	<b>Appendix 4 – Illustration 2 and Illustration 3 – P.180</b>	Throughout Illustration 2 and Illustration 3 there are references to the “financial forecast Statement of Financial Performance”. We are of the view that this should read “forecast Statement of Financial Performance”.
<b>88</b>	<b>Appendix 4 – Illustration 2 – P.185</b>	Typographical errors
<b>89</b>	<b>Appendix 4 – Illustration 2 – P.188</b>	Misleading language. In the 3 <sup>rd</sup> and 4 <sup>th</sup> paragraphs there is wording which states that the pro forma forecast “...provides a guide to the potential financial performance of the company...” and “...may be achievable...”. This is misleading and needs to be worded in the context that this would only be the case if certain event had/had not occurred.
<b>90</b>	<b>Appendix 4 – Illustration 3 – P.192 and Illustration 4 – P.197 and P.199</b>	The 2 <sup>nd</sup> paragraph of pages 192 and 197, and the final line of page 199, states that we disclaim responsibility for any reliance on the report...to any person other than management, however, our report is addressed to the Directors.
<b>91</b>	<b>Appendix 4 –</b>	We recommend changing the word “ended” to “ending”

	<b>Illustration 3</b> – P.192		in the 2 <sup>nd</sup> line of the 3 <sup>rd</sup> paragraph of page 192.
<b>92</b>	<b>Appendix 4 – Illustration 3</b> – P.194	Typographical error	We recommend that references to “pro forma” are removed from the 2 <sup>nd</sup> paragraph of page 194. Add the word “in” after the word “uncertainties” in the 6 <sup>th</sup> line of the 2 <sup>nd</sup> paragraph of page 194.
<b>93</b>	<b>Appendix 4 – Illustration 4</b> – P.196	The content of illustration 4 seems very similar to illustration 3, so we do not see that it is required.	We recommend that the removal of illustration 4 is considered.
<b>94</b>	<b>Appendix 4 - Illustration 4</b> – P.196	The 3 <sup>rd</sup> line of the letter refers to the assurance practitioner reviewing the forecast Statement of Financial Performance and the projected Statement of Financial Performance, but the conclusion only refers to the forecast Statement of Financial Performance.	We recommend that the reference to the “projected Statement of Financial Performance” is removed.
<b>95</b>	<b>Appendix 4 – Illustration 5</b> – P.202 and <b>Illustration 5</b> – P.206	An element of the “Scope” section is incorrectly worded or incomplete. The first sentence states: “You have requested [Firm Name] to provide an opinion on whether the pro forma historical financial information included in the [public document] has been compiled by the directors of ABC Company”.	The “Scope” section wording needs to be corrected, for example by adding “on the basis of the applicable criteria” to the end of the sentence highlighted.
<b>96</b>	<b>Appendix 4 – Illustration 5</b> – P.203	Typographical error	First words of the 2 <sup>nd</sup> paragraph need to be changed from “the pro forma financial historical...” to “the pro forma historical financial...” .
<b>97</b>	<b>Appendix 4 – Illustration 5</b> – P.203 and	Throughout Illustration 5 there is reference to the fact that the assurance practitioner is providing reasonable assurance in connection	Illustration 5 should be re-worded such that the assurance practitioner is providing limited assurance and not reasonable assurance.

	P.204	with the pro forma historical financial information. It would be more useful for the illustration to cover a limited assurance scenario because, as stated in paragraph 8, engagements involving pro forma historical financial information are ordinarily conducted to express limited assurance on the financial information.
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