

November 2012

Basis for Conclusions
***ASAE 3420 Assurance Engagements to
Report on the Compilation of Pro Forma
Historical Financial Information included
in a Prospectus or other Document***

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



Australian Government

Auditing and Assurance Standards Board

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Basis for Conclusions ASAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document

Basis for Conclusions ASAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASAE 3420.

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BASIS FOR CONCLUSIONS

ASAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document*, and is not a substitute for reading the Standard.

Background

1. The AUASB has issued a new Standard on Assurance Engagements, ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document* (ASAE 3420), which will be operative for engagements commencing on or after 1 July 2013. ASAE 3420 sets out mandatory requirements and related application and other explanatory material (“guidance”) for Australian assurance practitioners to apply when planning, performing and reporting on the compilation of pro forma historical financial information to be included in a prospectus, other public document, or prepared for another purpose.
2. The AUASB issued an exposure draft of the proposed standard, ED 02/11 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* on 30 September 2011, with a comment deadline of 15 November 2011 (45 day exposure period). Submissions were received from professional accounting and banking bodies, legal firms and regulatory bodies. The AUASB considered all submissions received and in response made a number of changes to the proposed Standard. The most substantive change was to split the proposed Standard into two separate Standards on Assurance Engagements: ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* and ASAE 3420 *Assurance Engagements To Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document*. ASAE 3420 deals with reporting on pro forma historical financial information that has been compiled by the responsible party while ASAE 3450 deals with reporting on historical financial information, pro forma historical financial information, prospective financial information, pro forma forecast and a projection prepared by the responsible party. Refer ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information Basis for Conclusions* document for further information.
3. ASAE 3420 was subsequently approved for issue on 26 November 2012, with 13 votes in favour.

Scope

4. ASAE 3420 applies to assurance reporting on the compilation of pro forma historical financial information prepared by the responsible party for inclusion in a public or non-public document.

Major Issues raised by Respondents on Exposure

The following summarises major issues raised by respondents to Exposure Draft ED 02/11 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* (ED 02/11) issued on 30 September 2011 and how the AUASB has addressed them.

Application/Scope

5. There were mixed views and reasons expressed by respondents on the question of whether ED 02/11 should include within its application and scope providing assurance on the nominated types of financial information covered, including historical financial information, pro forma historical financial information, prospective financial information, pro forma forecast, projections, or reporting on the compilation of pro forma financial information. In respect of the AUASB's decisions on the nominated types of financial information refer ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information (ASAE 3450) Basis for Conclusions* document for further information on the AUASB's decision in respect of ASAE 3450. Views expressed included the following:
- (a) Some respondents questioned the necessity of including assurance reporting on the compilation of pro forma financial information in ASAE 3450 given this is not an engagement type ordinarily conducted in Australia and recommended removing this content altogether.
 - (b) Other respondents suggested moving the compilation of pro forma financial information to a separate Standard and be based on ISAE 3420 *Assurance Engagements To Report on the Compilation of Pro Forma Financial Information included in a Prospectus*¹, with, or without, Australian-specific content.
 - (c) Some respondents suggested moving the content to a separate Standard to more clearly differentiate that the assurance was on the "process" of compiling the pro forma financial information rather than assurance on the pro forma financial information itself, which some of these respondents saw as a critical differentiation to make.
6. In response, the AUASB considered it appropriate to:
- (a) Split ED 02/11 into two separate Standards on Assurance Engagements: ASAE 3420 *Assurance Engagements To Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document* (covering assurance on the compilation of pro forma historical financial information only) and ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* (covering assurance on the financial information). Given the compilation of pro forma financial information section within ED 02/11 is based on ISAE 3420, the AUASB considered that the benefit of issuing ASAE 3420 as a stand-alone standard, directly comparable to, and in conformity to, ISAE 3420, outweighs any benefit in retaining its content within ASAE 3450. The AUASB also considered this approach to be more consistent with its general drafting principle of issuing an AUASB equivalent Standard when an International Auditing and Assurance Standard Board (IAASB) Standard is issued. Additionally, the AUASB agreed with respondent comments that a separate Standard was perceived to more clearly distinguish the fact that the assurance covered by ASAE 3420 is on the compilation of pro forma historical financial information rather than on the pro forma historical financial information itself.
 - (b) More closely re-align ED 02/11's compilation of pro forma financial information content to the form and layout of the underlying standard, ISAE 3420 *Assurance Engagements To Report on the Compilation of Pro Forma Financial Information included in a Prospectus*. Additionally, Australian-specific content is now more clearly distinguished from the ISAE content by the use of "Aus" paragraphs, which are consistent with the AUASB's general drafting principles.

¹ Issued by the International Auditing and Assurance Standards Board (IAASB).

Levels of Assurance included in ASAE 3420

7. There were mixed comments received from respondents on whether it was appropriate for ED 02/11 to allow assurance practitioners the option of conducting the assurance engagement as either limited or reasonable assurance, especially given ISAE 3420 only includes reasonable assurance.
 - (a) Some respondents recommended that only limited assurance should be included in the Standard as this is how the majority of Australian engagements are currently conducted. Most of these respondents did note that engagements to report on the compilation of pro forma financial information are uncommon in Australia. Furthermore, some of these respondents commented that reasonable assurance in such engagements is not practical given the level of evidence required and that if reasonable assurance was the only option, that assurance practitioners may continue performing the engagements as limited assurance outside of the AUASB pronouncement framework.
 - (b) Other respondents argued that Australian practitioners are not ordinarily requested to perform such engagements as reasonable assurance, on the basis that if the responsible party is seeking such assurance, it would be requested on the underlying pro forma financial information itself rather than on the compilation of such information. Hence limited assurance is ordinarily requested in these engagements, and an Australian equivalent standard to ISAE 3420 will only be useful to Australian practitioners if it allows for limited assurance. Some of these respondents suggested adding in the option of limited assurance and retaining the reasonable assurance option to ensure alignment to ISAE 3420, while others suggested removing the reasonable assurance option altogether.
 - (c) Some respondents suggested including only reasonable assurance, on the basis of retaining consistency with ISAE 3420. Some of these respondents also noted that, given such engagements are not ordinarily performed in Australia, that the Standard would have limited application/use in Australia.
8. The AUASB considered these comments in light of further respondent consultations, applicable law and regulation, technical deliberations, and the public interest. The AUASB further noted that these engagements are not currently required to be conducted in accordance with any applicable Australian law or regulation, and are therefore engagements conducted based on agreed terms between assurance practitioners and responsible parties. The AUASB acknowledged that the engagements to report on the compilation of pro forma financial information are able to be conducted as either limited or reasonable assurance, depending on the requirements of the responsible party (requesting the assurance), the availability of sufficient appropriate evidence supporting the compilation, time considerations and cost constraints.
9. The AUASB therefore decided to retain the option of limited assurance within ASAE 3420, and enable assurance practitioners the option of deciding, based on their engagement circumstances, whether limited or reasonable assurance is appropriate. Further guidance is incorporated in ASAE 3420 to assist assurance practitioners in making their decision on the appropriate assurance type. The AUASB considered it preferable, and in the public interest, for assurance practitioners to have the option of being able to conduct these types of engagements as limited assurance engagements in accordance with ASAE 3420, rather than simply issuing ASAE 3420 as a reasonable assurance only Standard that would not be used by Australian assurance practitioners. The AUASB further noted that this approach is consistent with ASAE 3450's assurance options on the "process" of preparation of prospective financial information (limb 2). Refer ASAE 3450 Basis for Conclusions document for further information.

Conclusion

The AUASB unanimously voted to approve and issue ASAE 3420 on 26 November 2012.

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