

November 2012

Basis for Conclusions
ASAE 3450 Assurance Engagements
involving Corporate Fundraisings and/or
Prospective Financial Information

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Basis for Conclusions

This Basis for Conclusions is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Contact Details

Auditing and Assurance Standards Board
Level 7, 600 Bourke Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

Postal Address:

PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA

COPYRIGHT

© 2012 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this document are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to the Executive Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne Victoria 8007. Otherwise, no part of the document may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 2201-3628

Basis for Conclusions ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information

Basis for Conclusions ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information 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 3450.

No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

CONTENTS

	<i>Page</i>
Background	5
Scope	5
Major Issues raised by Respondents on Exposure	5
Application/Scope	6
Assurance Conclusion on Prospective Financial Information.....	8
Conclusion.....	9

BASIS FOR CONCLUSIONS

ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information

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 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, and is not a substitute for reading the Standard.

Background

1. The AUASB has issued a new Standard on Assurance Engagements, ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* (ASAE 3450), which will be operative for engagements commencing on or after 1 July 2013. It replaces extant AuASB Auditing Standard AUS 804 *The Audit of Prospective Financial Information* (issued July 2002) and Australian Guidance Statement AGS 1062 *Reporting in Connection with Proposed Fundraisings* (issued August 2002).
2. ASAE 3450 sets out mandatory requirements and related application and other explanatory material (“guidance”) for Australian assurance practitioners to apply when planning, performing and reporting on financial information related to a corporate fundraisings to be included in a public document, or on prospective financial information prepared for other purposes.
3. 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 ASAE 3450. The most substantive change was to split ASAE 3450 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* and ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*. 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, while ASAE 3420 deals with reporting on pro forma historical financial information that has been compiled by the responsible party. Refer 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 document for further information.
4. ASAE 3450 was subsequently approved for issue on 26 November 2012, with 13 votes in favour.

Scope

5. ASAE 3450 applies to assurance engagements reporting on historical financial information, pro forma historical financial information, prospective financial information, and/or a pro forma forecast prepared by the responsible party for inclusion in a public or non-public document, or assurance engagement reporting on prospective financial information, a pro forma forecast, or a projection, prepared by the responsible party for any other purpose.

Major Issues raised by Respondents on Exposure

The following summarises the 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

6. 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. Views expressed included the following:
 - (a) Some respondents disliked the large size of ED 02/11, on the basis that it was seen as hard to navigate/intimidating particularly for assurance practitioners within smaller to medium sized firms (respondent suggestions to overcome this included: removing historical financial information, pro forma financial information, pro forma forecast, and/or the compilation of pro forma financial information sections, and further reviewing the document to reduce any unnecessary replication of wording between the historical and prospective financial information sections).
 - (b) Other respondents liked the format and content of ED 02/11 and favoured retaining all financial information types already covered within the one document as they believed it provided ease of reference for assurance practitioners, given Australian engagements often include reporting on the different financial information types included in ED 02/11 within the same assurance report.
 - (c) Some respondents disagreed with the inclusion of both historical and prospective financial information types within the one document. This was because they believed it created unnecessary repetition of wording within these sections, despite acknowledging the repetition was designed to enable the sections to be read on a stand-alone basis (respondent suggestions included splitting these into two separate ASAEs, or removing the historical financial information section altogether as there are other appropriate issued AUASB Standards that deal with the content).
 - (d) Other respondents agreed with the repetition of applicable wording between the historical financial information and prospective financial information sections, on the basis that they should be able to be read on a “stand-alone” basis within ED 02/11 (i.e. without having to cross-reference to another section). This was on the basis that it is often the case that different firm specialisation groups would apply these sections (for example, audit would perform the work on the historical financial information and corporate finance would perform the work on the prospective financial information).
 - (e) Some respondents questioned the necessity of including assurance engagement reporting on the compilation of pro forma financial information in ASAE 3450 given this is not an engagement type regularly conducted in Australia. (respondent suggestions included removing this content altogether, or moving it to a separate Standard aligned to ISAE 3420 *Assurance Engagements To Report on the Compilation of Pro Forma Financial Information included in a Prospectus*¹.)
7. In response, the AUASB considered it appropriate to:
 - (a) Split ED 02/11 into two separate Standards on Assurance Engagements: ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective*

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

Financial Information (covering assurance on the 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* (covering assurance on the compilation of pro forma historical financial information only). Given the compilation of pro forma financial information section within ED 02/11 is based on ISAE 3420, with additional Australian-specific content added (denoted by “Aus” paragraph insertions), the AUASB considered that the benefit of issuing ASAE 3420 as a stand-alone standard, directly comparable to ISAE 3420, outweighs any benefit in retaining its content within ASAE 3450. The AUASB also considered that this approach to be more consistent with the AUASB’s general drafting principle of issuing an AUASB equivalent Standard when an IAASB Standard is issued. Additionally, it clearly distinguishes the fact that the assurance covered by ASAE 3420 is on the compilation of pro forma historical financial information rather than the pro forma historical financial information itself. [Refer ASAE 3420 *Assurance Engagements To Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document* (ASAE 3420) Basis for Conclusions document for further information on the AUASB’s decision in respect of ASAE 3420.]

- (b) Retain within ASAE 3450 assurance engagement reporting on the financial information types covered in ED 02/11, being historical financial information, pro forma historical financial information, prospective financial information, and pro forma forecast. Additionally the AUASB decided to include a new sub-section within prospective financial information dealing with assurance on projections prepared for non-public documents. This is on the basis that:
 - (i) These financial information types represent those ordinarily included within the scope of assurance reporting for Australian assurance engagements;
 - (ii) Australian assurance engagements often include the provision of assurance on more than one type of financial information within the one assurance report;
 - (iii) Extant AUS 804 and AGS 1062 both included wording dealing with projections and the AUASB believes that ASAE 3450 (as their replacement Standard) should include projections as a separate subsection (rather than within prospective financial information as in ED 02/11) in order to more clearly contain its requirements and related guidance to projections to be included in non-public documents (given projections are not considered acceptable for inclusion in public documents); and
 - (iv) The AUASB considered it appropriate, and wholly consistent with its stated drafting approach, to include core requirements and related guidance related to the same subject matter (provision of assurance on different types of financial information) within one document (ASAE 3450).
- (c) Re-arrange the content of ED 02/11 to incorporate, at the beginning of the requirements (and related guidance) sections, core requirements (and related guidance) that apply regardless of the financial information type. Additional ‘special considerations’ requirements (and related guidance) applicable to each particular financial information type would then be redrafted to apply in conjunction with the core requirements (and related guidance). The AUASB considered that this approach would substantially improve ASAE 3450’s overall structure, flow, and clarity, enhance consistency of terminology and wording used within the different financial information sections, and reduce unnecessary wording duplication, particularly between the historical financial information and prospective financial information sections. It would also have the effect of reducing the overall size of ASAE 3450.
- (d) Expand the introductory “Scope” section of ASAE 3450 to include guidance on:

- (i) the types of financial information covered in ASAE 3450;
- (ii) how to use ASAE 3450 (explaining the interlink of core requirements with additional special considerations);
- (iii) the types of assurance provided covered by financial information type (with examples provided on single or multiple types within the engagement);
- (iv) applying the requirements in the ASAE to a limited assurance versus a reasonable assurance engagement; and
- (v) its relationships with other (existing) AUASB Standards, ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*.

Assurance Conclusion on Prospective Financial Information

8. There were mixed comments received from respondents on the proposed wording of the unmodified assurance conclusion for the different elements of prospective financial information (and a pro forma forecast). ED 02/11 provided for the following types of assurance on the different elements of the prospective financial information:
- (a) [Limited or reasonable assurance], [in all material respects] on whether the best-estimate assumptions provide a reasonable basis for the prospective financial information (limb 1)
 - (b) [Limited or reasonable assurance], [in all material respects], on whether the prospective financial information is properly prepared on the basis of the best-estimate assumptions, including pro forma adjustments, as described in section [X] of the document and presented fairly in accordance with the stated basis of preparation as described in section [X] of the document; (limb 2) and
 - (c) Limited assurance on whether the prospective financial information itself is unreasonable. (limb 3)

Some respondents recommended that no assurance should be provided on the best-estimate assumptions (limb 1) or the prospective financial information itself (limb 3). Other respondents suggested that reasonable assurance was not appropriate for the best-estimate assumptions (limb 1) or basis of preparation (limb 2) and that only limited assurance was possible.

9. The AUASB considered these comments in light of subsequent respondent consultations, applicable law and regulation, and existing requirements and guidance contained in extant Auditing Standard AUS 804 *The Audit of Prospective Financial Information* and extant Guidance Statement AGS 1062 *Reporting in Connection with Proposed Fundraisings* (which ED 02/11 replaces). In response, the AUASB decided that the following types of assurance in respect of the different elements of prospective financial information were appropriate:
- (a) Limited assurance on whether the best-estimate assumptions provide a reasonable basis for the prospective financial information; (limb 1)
 - (b) [Limited or reasonable assurance], [in all material respects], on whether the prospective financial information is properly prepared on the basis of the best-estimate assumptions, including pro forma adjustments, as described in section [X] of the document and presented fairly in accordance with the stated basis of preparation as described in section [X] of the document; (limb 2) and

- (c) [Limited assurance] on whether the prospective financial information itself is unreasonable. (limb 3)

In respect of Limb 2, the AUASB considers this is consistent with the limited or reasonable assurance conclusion phrases the AUASB has included in ASAE 3420. Refer ASAE 3420 for further information.

The AUASB has also enhanced its guidance in ASAE 3450 to explain the rationale for the different types of assurance and that the assurance practitioner agrees to provide the type of assurance on the different elements of the prospective financial information based on the individual engagement circumstances and the assurance practitioner's professional judgement.

Conclusion

The AUASB unanimously voted to approve and issue ASAE 3450 on 26 November 2012.

* * *